

Beauty Farm Medical and Health Industry Inc.

美麗田園醫療健康產業有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2373



贝黎诗
PALAISPA

CellCare
|秀|可|儿|医|美|

NEOLOGY
研源医疗

GLOBAL OFFERING

Joint Sponsors, Overall Coordinators, Joint Global Coordinators,
Joint Bookrunners and Joint Lead Managers

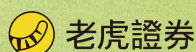
Morgan Stanley



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Beauty Farm Medical and Health Industry Inc.

美麗田園醫療健康產業有限公司*

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	40,536,500 Shares (comprising 24,395,500 New Shares and 16,141,000 Sale Shares, subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	4,054,000 Shares (subject to reallocation)
Number of International Offer Shares	:	36,482,500 Shares (comprising 20,341,500 New Shares and 16,141,000 Sale Shares, subject to reallocation and the Over-allotment Option)
Offer Price	:	HK\$19.32 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565%, and AFRC transaction levy of 0.00015% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	US\$0.000005 per Share
Stock code	:	2373

Joint Sponsors, Overall Coordinators, Joint Global Coordinators,
Joint Bookrunners and Joint Lead Managers

Morgan Stanley



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, 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 prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VI — Documents Delivered to the Registrar of Companies and Available on Display", has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price will be HK\$19.32 per Offer Share. Applicants for Hong Kong Offer Shares are required to pay, on application, the Offer Price of HK\$19.32 for each Hong Kong Offer Share together with a brokerage fee of 1.0%, a SFC transaction levy of 0.0027%, a Hong Kong Stock Exchange trading fee of 0.00565%, and AFRC transaction levy of 0.00015%.

The Overall Coordinators, on behalf of the Underwriters, may, with the consent of our Company and the Selling Shareholder, reduce the number of Hong Kong Offer Shares and/or the Offer Price in this prospectus at any time on or prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.beautyfarm.com.cn as soon as practicable following the decision to make such reduction, but in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

Our Company is incorporated in the Cayman Islands and substantially all of our businesses are located in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the Cayman Islands, the PRC and Hong Kong and that there are different risk factors relating to the investment in our Company. Potential investors should also be aware that the regulatory framework in the Cayman Islands and the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the Shares. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Regulatory Overview" in this prospectus and in Appendix III to this prospectus.

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Hong Kong Offer Shares, the Joint Sponsors and the Overall Coordinators, on behalf of the Hong Kong Underwriters, have the right in certain circumstances, in their absolute discretion, to terminate the obligation of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the paragraph headed "Underwriting — Hong Kong Underwriting Arrangements — Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares may be offered, sold or delivered (i) in the United States to "Qualified Institutional Buyers" in reliance on Rule 144A or another exemption from the registration requirements of the U.S. Securities Act and (ii) outside of the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.beautyfarm.com.cn. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

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This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “HKEXnews> New Listings> New Listing Information” section, and our website at www.beautyfarm.com.cn. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online via the White Form eIPO service or at www.eipo.com.hk; or
- (2) apply through the CCASS EIPO service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8690 on the following dates:

Friday, December 30, 2022 — 9:00 a.m. to 9:00 p.m.
Tuesday, January 3, 2023 — 9:00 a.m. to 9:00 p.m.
Wednesday, January 4, 2023 — 9:00 a.m. to 9:00 p.m.
Thursday, January 5, 2023 — 9:00 a.m. to 9:00 p.m.
Friday, January 6, 2023 — 9:00 a.m. to 12:00 noon

Please refer to the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

IMPORTANT

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 500 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

Beauty Farm Medical and Health Industry Inc.

美麗田園醫療健康產業有限公司

(HK\$19.32 per Hong Kong Offer Share)

NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>
500	9,757.42	7,000	136,603.89	50,000	975,742.11	400,000	7,805,936.88
1,000	19,514.84	8,000	156,118.73	60,000	1,170,890.53	450,000	8,781,678.99
1,500	29,272.26	9,000	175,633.57	70,000	1,366,038.95	500,000	9,757,421.10
2,000	39,029.68	10,000	195,148.43	80,000	1,561,187.38	600,000	11,708,905.32
2,500	48,787.10	15,000	292,722.62	90,000	1,756,335.80	700,000	13,660,389.55
3,000	58,544.52	20,000	390,296.84	100,000	1,951,484.22	800,000	15,611,873.75
3,500	68,301.95	25,000	487,871.05	150,000	2,927,226.34	900,000	17,563,357.98
4,000	78,059.38	30,000	585,445.27	200,000	3,902,968.45	1,000,000	19,514,842.20
4,500	87,816.79	35,000	683,019.48	250,000	4,878,710.56	1,500,000	29,272,263.30
5,000	97,574.21	40,000	780,593.69	300,000	5,854,452.65	2,027,000 ⁽¹⁾	39,556,585.13
6,000	117,089.05	45,000	878,167.89	350,000	6,830,194.76		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published on the Company's website at www.beautyfarm.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

Hong Kong Public Offering commences 9:00 a.m. on
Friday, December 30, 2022

Latest time for completing electronic
applications under the **White Form eIPO**
service through the designated website at
www.eipo.com.hk⁽²⁾ 11:30 a.m. on
Friday, January 6, 2023

Application lists open⁽³⁾ 11:45 a.m. on
Friday, January 6, 2023

Latest time for (a) completing
payment of **White Form eIPO** applications by
effecting internet banking transfer(s) or
PPS payment transfer(s) and (b) giving
electronic application instructions to HKSCC⁽⁴⁾ 12:00 noon on
Friday, January 6, 2023

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close⁽³⁾ 12:00 noon on
Friday, January 6, 2023

Announcement of the level of
indications of interest in the International Offering,
the level of applications in the Hong Kong Public Offering and
the basis of allocation of the Hong Kong Public Offering
to be published and on the website of the Stock Exchange
at www.hkexnews.hk and on the Company's website at
www.beautyfarm.com.cn⁽⁶⁾ on or before⁽¹⁰⁾ Friday, January 13, 2023

EXPECTED TIMETABLE⁽¹⁾

The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:

- in the announcement to be posted on our website and the website of the Stock Exchange at www.beautyfarm.com.cn and www.hkexnews.hk, respectively⁽¹⁰⁾ Friday, January 13, 2023
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) (or with a "search by ID" function from⁽¹⁰⁾ 8:00 a.m. on Friday, January 13, 2023 to 12:00 midnight on Thursday, January 19, 2023
- from the allocation results telephone enquiry line by calling + 852 2862 8555 between 9:00 a.m. and 6:00 p.m. on⁽¹⁰⁾ Friday, January 13, 2023, Monday, January 16, 2023, Tuesday, January 17, 2023 and Wednesday, January 18, 2023

Share certificates in respect of wholly or partially successful applications to be dispatched/collected or deposited into CCASS on or before^{(7) (9) (10)} Friday, January 13, 2023

White Form e-Refund payment instructions/refund checks in respect of (i) wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and (ii) wholly or partially unsuccessful application under the Hong Kong Public Offering to be dispatched/collected on or before^{(8) (9) (10)} Friday, January 13, 2023

Dealings in the Shares on the Stock Exchange expected to commence at⁽¹⁰⁾ 9:00 a.m. on Monday, January 16, 2023

The application for the Hong Kong Offer Shares will commence on Friday, December 30, 2022 through Friday, January 6, 2023, being slightly longer than normal market practice of four days. The application monies (including brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicant(s) without interest on Friday, January 13, 2023. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Monday, January 16, 2023.

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates.
- (2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, January 6, 2023, the application lists will not open and will close on that day. For further details, please see “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening and Closing of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying Through the CCASS EIPO Service” in this prospectus.
- (5) None of the websites or any of the information contained on the websites forms part of this prospectus.
- (6) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid evidence of title do so entirely at their own risk.
- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s identification document number provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s identification document number before encashment of the refund check. Inaccurate completion of an applicant’s identification document number may invalidate or delay encashment of the refund check.
- (8) Applicants who have applied through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, January 13, 2023 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

EXPECTED TIMETABLE⁽¹⁾

Applicants who have applied for Hong Kong Offer Shares through the **CCASS EIPO** service should refer to the section headed “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies — Personal Collection — (ii) if you apply through the **CCASS EIPO** service” in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks in favour of the applicant (or, in the case of joint applications, the first-named applicant) by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed “How to Apply for the Hong Kong Offer Shares — 13. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies”.

- (9) In case a typhoon warning signal no.8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Friday, December 30, 2022 to Monday, January 16, 2023, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) despatch of Share certificates and refund checks/**White Form** e-Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. For further details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please see “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus, respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such case, the Company will make an announcement as soon as practicable thereafter.

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This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdiction pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

*You should rely only on the information contained in this prospectus and the **GREEN** Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholder, the Joint Sponsors, the Overall Coordinators, the Capital Market Intermediaries, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, partners, agents or representatives, or any other party involved in the Global Offering. Information contained on our website (www.beautyfarm.com.cn) does not form part of this prospectus.*

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment in the Offer Shares. Some of the particular risks in investing in the Offer Shares are set out in the section entitled “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021. Our diversified service offerings cover traditional beauty services, aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services) as well as subhealth assessment and intervention services that are all personalized to serve our clients’ health and beauty desire. These service industries have been under increased regulatory oversight in recent years, including laws and regulations related to false advertising, false efficacy claims, kickbacks and rebates. We operate multiple chain brands in China’s beauty and health management service industry, including BeautyFarm (美麗田園), our flagship brand established in 1993, and three other brands, namely, Palaispa (貝黎詩), Neology (研源) and CellCare (秀可兒).

According to Frost & Sullivan, driven by the increasing disposable income *per capita* of Chinese population and elevated self-awareness of appearance, the size of China’s traditional beauty service market reached RMB403.2 billion in 2021, and is projected to grow at CAGR of 5.3% to RMB640.2 billion in 2030. The size of non-surgical aesthetic medical service market reached RMB97.7 billion in 2021, and is forecasted to reach RMB415.7 billion in 2030, with a CAGR of 17.5% from 2021 to 2030, according to the same source.

We provide standardized services to our clients across all of our stores. Supported by our proprietary in-house training system, digitalized platform and supply chain management, we are able to trace and monitor our service performance in a timely manner. Our client visits increased from 819,382 in 2019 to 1,054,952 in 2021 at a CAGR of 13.5%. Many clients became our members after their initial visits, and we consider our enlarging group of active members as the foundation to our success. In 2021, our direct stores had 77,356 active members (defined as those members who used our services at least once during the relevant period) which increased by 12.5% from 2020. An active member may purchase different types of services within our service network and could become our active member under different service offerings. Our active members on average made 10.8 visits and spent RMB20,832 in 2021 as compared with 10.2 visits and RMB20,151 average spending in 2020. During the six months ended June 30, 2022, our direct stores served 60,956 active members, who on average made 5.9 visits and spent approximately RMB10,736.

We believe that the following strengths contribute to our success and differentiate us from our competitors, including:

- *Nationwide store network, diversified brand portfolio and constant evolution of business model supported by nationwide stores network. As one of the domestic*

SUMMARY

chain brands in China's beauty and health management service industry, we have provided traditional beauty services to clients for nearly three decades. We have established the most extensive store network in China in terms of the number of cities covered by direct stores in the traditional beauty service market, as of June 30, 2022, according to Frost & Sullivan. Additionally, we have provided aesthetic medical services under CellCare (秀可兒) since 2011 and subhealth assessment and intervention services under Neology (研源) since 2018. As of June 30, 2022, our overall service network comprised 352 stores, including 177 direct stores as well as 175 franchised stores. Among the 177 stores we directly owned, 84 stores were located in tier-one cities and 73 stores were located in new tier-one cities. As of June 30, 2022, we had 154 direct stores and 175 franchised stores providing traditional beauty services under BeautyFarm (美麗田園) and Palaispa (貝黎詩), 18 direct stores providing aesthetic medical services under CellCare (秀可兒), and five stores providing subhealth assessment and intervention services under Neology (研源).

- *Standardized services supported by digitalized platform.* We apply digitalized tools to provide clients with personalized services and to improve operational efficiency. We had developed 37 proprietary information management systems as of the Latest Practicable Date. Our integrated service platform is capable of consolidating and processing operational data accumulated from various systems across our store network. We also apply data mining and data analytics to obtain valuable insights to profile our clients' transaction patterns, consumption habits, and lifetime client value. Such tech-enabled enhancements allow us to customize our services according to clients' needs so as to maintain their stickiness and identify cross-selling opportunities. In addition, we are one of the earliest adopters of mobile reviewing system, where our clients are able to review and comment on our services in real-time. Moreover, our digitalized client relationship management ("CRM") system is thorough, convenient and prompt, offering a fast feedback mechanism for client inquiries, appointments, complaints and post-service reviews.
- *Experienced service personnel.* Our service personnel at our stores are vital to the quality of our services and our competitiveness. As of June 30, 2022, we had a total of 1,898 service personnel (including registered physicians, trained therapists, nurses, and store directors) nationwide. We have established two BeautyFarm Training Centers (美麗田園培訓中心) in Shanghai and Wuhan, which provide our service personnel with pre-work and ongoing training. Since their establishment, our BeautyFarm Training Centers (美麗田園培訓中心) have provided over 13,000 sessions to our service personnel.

In addition, our business growth in the past was also attributable to strategic acquisitions, our visionary and seasoned management, and strong shareholder support. Our business grew continuously in 2019, 2020 and 2021. Our total revenue increased by 7.0% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020, and further increased by 18.5% to RMB1,780.7 million in 2021. We recorded a net profit of RMB147.4 million in 2019, RMB152.2 million in 2020, and RMB208.3 million in 2021 at a CAGR of 18.9% from 2019 to 2021. Due to the adverse impact of recurrence of COVID-19 ("**Recurrence**") in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3

SUMMARY

million for the six months ended June 30, 2022; our net profit decreased from RMB105.1 million for the six months ended June 30, 2021 to RMB19.8 million for the six months ended June 30, 2022. Excluding the effects of share-based compensation expenses and listing expenses, our adjusted profit (non-HKFRS measure) for the six months ended June 30, 2021 and 2022 would be RMB108.0 million and RMB50.6 million, respectively.





OUR STRATEGIES

We will focus on these key growth strategies to realize our vision, including (i) strategically expand our service network and marketing channels to expand our client base and increase brand awareness; (ii) further enhance our operational efficiency and client experience through standardization and digitalization of our system; (iii) improve client loyalty and fulfill clients' evolving needs by introducing new technologies, equipment and products, and expanding our service offerings; (iv) continue to cultivate, recruit and retain high-caliber talent and strengthen our human resources management mechanism; and (v) integrate industry resources and promote the development of industry standards by deepening cooperation with upstream suppliers and sharing our industry and management experience.

OUR BRANDS, STORE OPERATION MODEL, SERVICES AND STORE NETWORK

Our Brands

Our store network consists of our flagship BeautyFarm (美麗田園) brand, as well as three other brands such as Palaispa (貝黎詩), CellCare (秀可兒), and Neology (研源). Among them, BeautyFarm (美麗田園) is one of the domestic chain brands since 1993. The following table summarizes our material brands:

Name of the brand	Direct store number as of June 30, 2022	Service focus	Business model
 美麗田園 Beauty Farm	139	Traditional beauty services	Direct store and franchised store
	15	Traditional beauty services	Direct store and franchised store
	18	Aesthetic medical services	Direct store
	5	Subhealth assessment and intervention services	Direct store
Total	177		

SUMMARY

Our Store Operation Model

Our stores are operated under two main business models. BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores are operated under both direct store model and franchised store model. Our CellCare (秀可兒) stores and Neology (研源) healthcare centers are operated exclusively under the direct store model. During the Track Record Period, our direct stores generated a very significant portion of our total revenue, contributing to 91.7%, 93.9%, 94.1% and 93.9% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

We have introduced franchised store model for traditional beauty services for over 15 years and generated revenue primarily from franchise fees as well as product sales from franchised stores. During the Track Record Period, the revenue contributions from our franchised stores amounted to RMB84.5 million, RMB70.9 million, RMB87.5 million, and RMB35.8 million, respectively, representing 6.0%, 4.7%, 4.9% and 4.9% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, among which (i) the revenue from franchise fees amounted to RMB5.5 million, RMB4.3 million, RMB3.6 million and RMB3.0 million, representing 0.4%, 0.3%, 0.2% and 0.4% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively and (ii) the revenue from product sales to franchisees amounted to RMB79.0 million, RMB66.6 million, RMB83.8 million and RMB32.8 million, representing 5.6%, 4.4%, 4.7% and 4.5% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Our Services

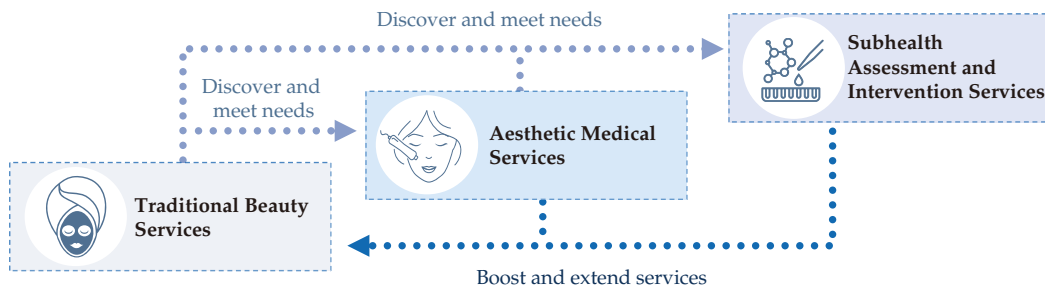
During the Track Record Period, our revenue was mainly derived from the provision of (i) traditional beauty services, where we earn service fees directly from consumers as well as franchise fees from franchisees. In addition, to a much lesser extent, we generated revenue from sales of skincare products (including product sales to consumers in direct stores, and to franchisee stores and others); (ii) aesthetic medical services (including both (a) non-surgical aesthetic medical services such as energy-based services and injection services and (b) surgical aesthetic medical services); and (iii) subhealth assessment and intervention services.

The traditional beauty services provided under our BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands are non-medical and non-invasive in nature, and primarily include facial and body care service procedures intended to improve skin condition and overall physical well-being of our clients. The aesthetic medical services provided under our CellCare (秀可兒) brand are primarily non-surgical procedures, including energy-based services and injection services. The energy-based service procedures involve the use of energy-based equipment, such as laser, radiofrequency, intense pulsed light and cryolipolysis (also known as fat freezing). The injection service procedures are minimally invasive injection procedures using active substance such as botulinum toxin type A and hyaluronic acid. To a limited extent, our CellCare (秀可兒) stores also provided surgical aesthetic medical services that are classified as low-risk Grade I medical procedures according to the applicable laws and regulations, during the Track Record Period, such as double eyelid construction, lipofilling and liposuction procedures, which contributed 2.8%, 5.5%, 4.8% and 3.8% of our total revenue in 2019, 2020, 2021 and the six

SUMMARY

months ended June 30, 2022, respectively. In addition, surgical aesthetic medical services are performed by registered physicians who have obtained requisite licenses and training. We have obtained requisite licenses and approvals to provide such surgical aesthetic medical services during the Track Record Period. The subhealth assessment and intervention services provided under our Neology (研源) brand include detection, assessment and intervention of subhealth conditions. There is currently no recommendation from national or international treatment guidelines for assessment or intervention measures for subhealth status, including subhealth assessment and intervention services provided by the Company. However, the Company's subhealth assessment and intervention services aim to improve clients' health conditions, by way of regulating and enhancing the functions of the organ systems of the client's body by applying functional medicine. We offer a wide variety of traditional beauty service procedures and aesthetic medical service procedures. The average price range of traditional beauty service procedures is from approximately RMB100 to RMB2,000 and the average price range of aesthetic medical service procedures is from RMB800 to RMB396,000, depending on the nature of the selected procedure and the specific client's conditions and needs. The average price of a subhealth assessment and intervention service procedure varied with the nature of the purchased service procedure, averagely costing from approximately RMB1,000 to RMB38,000.

We first gain client trust from traditional beauty services, and then extend to more sophisticated services such as aesthetic medical services and subhealth assessment and intervention services. Our industry insight enables us to maintain a strong attachment with our clients, which has helped us to develop and discover additional demands in beauty and health management service industry, enables us to provide services based on our clients' demands, and further helps us retain clients and increase client spending:



SUMMARY

Financial Performance of our Services

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Traditional beauty services										
<i>Direct stores</i>										
– Services	717,358	51.1	680,727	45.3	857,295	48.2	391,244	46.7	352,654	48.1
– Product sales	42,468	3.0	76,281	5.1	84,062	4.7	31,979	3.8	30,390	4.1
<i>Subtotal</i>	<u>759,826</u>	<u>54.1</u>	<u>757,008</u>	<u>50.4</u>	<u>941,357</u>	<u>52.9</u>	<u>423,223</u>	<u>50.5</u>	<u>383,044</u>	<u>52.2</u>
<i>Franchisee and others</i>										
– Franchise fees	5,474	0.4	4,297	0.3	3,611	0.2	1,321	0.2	2,971	0.4
– Products sales ⁽¹⁾	110,513	7.8	86,805	5.7	101,816	5.7	44,668	5.3	42,027	5.7
<i>Subtotal</i>	<u>115,987</u>	<u>8.2</u>	<u>91,102</u>	<u>6.0</u>	<u>105,427</u>	<u>5.9</u>	<u>45,989</u>	<u>5.5</u>	<u>44,998</u>	<u>6.1</u>
Aesthetic medical services ⁽²⁾	464,586	33.1	564,076	37.5	673,025	37.8	338,634	40.5	275,556	37.5
Subhealth assessment and intervention services	64,353	4.6	91,110	6.1	60,931	3.4	28,984	3.5	30,720	4.2
Total	<u>1,404,752</u>	<u>100.0</u>	<u>1,503,296</u>	<u>100.0</u>	<u>1,780,740</u>	<u>100.0</u>	<u>836,830</u>	<u>100.0</u>	<u>734,318</u>	<u>100.0</u>

SUMMARY

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
BeautyFarm (美麗田園)	675,978	48.1	696,252	46.4	855,966	48.1	381,809	45.6	351,977	48.0
Palaispa (貝黎詩)	83,848	6.0	60,756	4.0	85,391	4.8	41,414	4.9	31,067	4.2
CellCare (秀可兒) ⁽²⁾	464,586	33.1	564,076	37.5	673,025	37.8	338,634	40.5	275,556	37.5
Neology (研源)	64,353	4.6	91,110	6.1	60,931	3.4	28,984	3.5	30,720	4.2
Franchisee and others	115,987	8.2	91,102	6.0	105,427	5.9	45,989	5.5	44,998	6.1
Total	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0

Notes:

- (1) Included product sales to franchised stores amounted to RMB79.0 million, RMB66.6 million, RMB83.8 million and RMB32.8 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, as well as product sales to others (primarily include (i) product sales to or through Shanghai Luanmei, whose primary business is the operation of online stores on Tmall (天貓商城) as well as (ii) product sales in beauty exhibitions) amounted to RMB31.5 million, RMB20.2 million, RMB18.0 million and RMB9.2 million, for the same period.
- (2) During the Track Record Period, our revenue from non-surgical aesthetic medical services contributed 30.3%, 32.1%, 33.0% and 33.7% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. In addition to non-surgical aesthetic medical services, to a limited extent, our CellCare (秀可兒) stores also provided surgical aesthetic medical services during the Track Record Period that are classified as low-risk Grade I medical procedures according to the applicable laws and regulations, such as double eyelid construction, lipofilling and liposuction procedures, which contributed 2.8%, 5.5%, 4.8% and 3.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Our business grew continuously in 2019, 2020 and 2021. In 2020, we experienced a slower growth rate primarily due to the outbreak of COVID-19 pandemic. Our traditional beauty services (comprising services under BeautyFarm (美麗田園) and Palaispa (貝黎詩)), which represented the largest component of our service offerings, experienced a slow growth rate in 2020 as strict social distancing restrictions and temporary store closures (ranging from a few days to a few months in most regions in China such as Wuhan and Beijing) were imposed after the COVID-19 emerged in early 2020. In particular, our Palaispa (貝黎詩) stores were more affected by the outbreak of COVID-19 pandemic in 2020 as a large number of Palaispa (貝黎詩) stores were located in Beijing, where our stores experienced a longer period for around one additional month of store closures due to the restriction on mobility in local regions. As a result, our revenue generated from Palaispa (貝黎詩) stores decreased from RMB83.8 million in 2019 to RMB60.8 million in 2020. In 2021, corresponding with our business expansion and continued sales and marketing efforts, we improved operational performance and our revenue of traditional beauty services and aesthetic medical services increased concurrently. Due to the Recurrence in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022. To protect the health and well-being of our employees and clients and in support of the efforts to control the spread of the outbreak, we closed or reduced working hours by approximately 32% of certain of our direct stores. Since mid-June 2022, substantially all of our stores have been operated under normal business hours. For details, see “Financial Information — Results of Operations” in this prospectus.

SUMMARY

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Traditional beauty services										
– Direct stores	327,376	43.1	278,473	36.8	360,621	38.3	155,921	36.8	119,542	31.2
– Franchisee and others	68,796	59.3	52,578	57.7	60,621	57.5	21,994	47.8	28,694	63.8
Aesthetic medical services	284,286	61.2	334,502	59.3	386,360	57.4	201,485	59.5	154,216	56.0
Subhealth assessment and intervention services	27,883	43.3	34,471	37.8	26,184	43.0	9,551	33.0	11,577	37.7
Total gross profit/overall gross profit margin	<u>708,341</u>	50.4	<u>700,024</u>	46.6	<u>833,786</u>	46.8	<u>388,951</u>	46.5	<u>314,029</u>	42.8

The following table sets forth a breakdown of our gross profit and gross profit margin by brands for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
BeautyFarm (美麗田園)	291,552	43.1	262,732	37.7	328,562	38.4	142,651	37.4	114,291	32.5
Palaispa (貝黎詩)	35,824	42.7	15,741	25.9	32,059	37.5	13,270	32.0	5,251	16.9
CellCare (秀可兒)	284,286	61.2	334,502	59.3	386,360	57.4	201,485	59.5	154,216	56.0
Neology (研源)	27,883	43.3	34,471	37.8	26,184	43.0	9,551	33.0	11,577	37.7
Franchisee and others	68,796	59.3	52,578	57.7	60,621	57.5	21,994	47.8	28,694	63.8
Total gross profit/overall gross profit margin	<u>708,341</u>	50.4	<u>700,024</u>	46.6	<u>833,786</u>	46.8	<u>388,951</u>	46.5	<u>314,029</u>	42.8

SUMMARY

For traditional beauty services by direct stores, we recorded a decrease in gross profit and gross profit margin from 2019 to 2020, primarily resulted from the outbreak of COVID-19 pandemic in 2020. In particular, our traditional beauty services were negatively affected due to the strict social distancing restrictions and temporary store closures in early 2020. Despite the decreased customer volume and store closures, we continued to incur fixed costs such as staff costs, rental expenses and other operation related expenses, which consisted of over 50% of the total cost of sales and services. As a result, we recorded decreased gross profit margin in 2020. Similarly, we also recorded a decrease in gross profit and gross profit margin by brands of BeautyFarm (美麗田園) and Palaispa (貝黎詩). From 2020 to 2021, we recorded an increasing trend in gross profit and gross profit margin of traditional beauty services, primarily due to the continued business expansion. This increasing trend can also be reflected from our business growth in BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands. For example, we opened 13 BeautyFarm (美麗田園) stores and one Palaispa (貝黎詩) store in 2021. Correspondingly, our active members served as well as average spending per active member also increased. As a result, we achieved better operational efficiency resulting from economies of scale in relevant costs as well as depreciation and amortization charges in relation to rents. In 2022, due to the Recurrence, especially the strict lockdown in Shanghai, our traditional beauty services by direct stores as well as BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands, recorded a decrease in gross profit and gross profit margin from the six months ended June 30, 2021 to the six months ended June 30, 2022. In general, during the Track Record Period, our gross profit margin of franchised stores and others was significantly higher than that of direct stores given that (i) gross profit margin of sales of products (being the major component of revenue from franchised stores and others) were higher than that of sales of services (being the major component of revenue from direct stores) as nominal fixed costs such as staff costs, rental expenses and operation related expenses were incurred and (ii) no corresponding costs were incurred in generating the franchise fees.

For aesthetic medical services, our gross profit generally increased over years except during the period from the six months ended June 30, 2021 to the six months ended June 30, 2022. Such decrease in gross profit during the first six months of 2022 was resulted from the negative impact of Recurrence as mentioned above. The overall increasing trend of gross profit over years in aesthetic medical services was primarily due to the business growth. However, we experienced a decrease in gross profit margin of aesthetic medical services during the Track Record Period. Our gross profit margin of aesthetic medical services decreased from 2019 to 2020, primarily because we offered an increasing number of injection services with discounts to attract new customers to try our services. Our gross profit margin of aesthetic medical services further decreased from 2020 to 2021, primarily due to the evolvement in product portfolio with increased popularity and acceptance in hyaluronic acid injection services, which have a relatively lower margin. In 2022, our gross profit margin of aesthetic medical services further decreased due to the Recurrence as mentioned above.

For subhealth assessment and intervention services under Neology (研源), our gross profit and gross profit margin fluctuated over year or period. The gross profit margin of subhealth assessment and intervention services decreased from 2019 to 2020 because we opened two additional Neology (研源) healthcare centers in the second half of 2019. Since it generally took time for newly-opened stores to ramp-up its performance, we incurred more costs as compared to revenue at their initial stage of operations, which negatively

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affected the gross profit margin of our subhealth assessment and intervention business. Our gross profit from subhealth assessment and intervention services decreased from 2020 to 2021, primarily due to the decrease in revenue resulted from less clients served. Since 2021, we also started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period. Our gross profit and gross profit margin from subhealth assessment and intervention services increased from the six months ended June 30, 2021 to the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. For details, see “Financial Information — Results of Operations” in this prospectus.

Measuring and comparing gross profits among our different service offerings, our aesthetic medical services still enjoy better gross profit margin than traditional beauty services by direct stores. Aesthetic medical services are in general a more lucrative service category than traditional beauty services, which can be reflected in the significantly higher price charged per each service session. One potential reason behind the relatively higher margin is the trust from our members and their willingness to purchase service packages with high value in pursuit of high quality services. Additionally, the different cost structure also contributes to the difference in gross profit margin. The cost of sales of traditional beauty services is largely composed of fixed costs such as staff costs and depreciation and amortization charges, and the service nature of traditional beauty services, which involves a relatively longer service period with the reliance on manual labor, also requires higher staff costs. By contrast, one of the largest cost of sales components of aesthetic medical services was product and consumable costs, which are only incurred when delivered to customers thus the costs are proportionate to client visit volume instead of fixed.

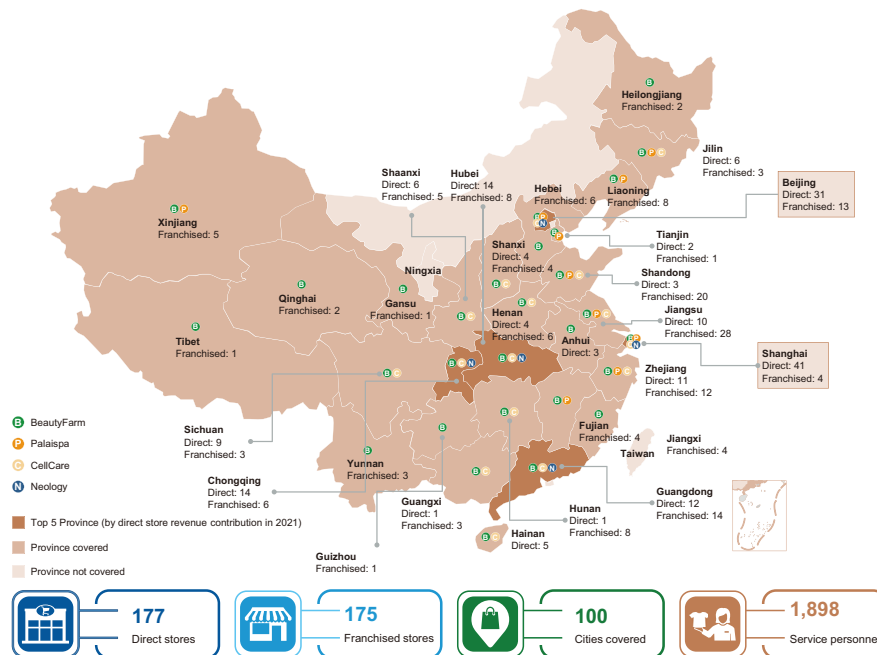
As a result of the above, our overall gross profit margin fluctuated over year or period, primarily due to the COVID-19 related impact. In particular, (i) our overall gross profit margin decreased from 2019 to 2020, primarily due to the outbreak of COVID-19 pandemic in 2020, as many of our service stores, including BeautyFarm (美麗田園), Palaispa (貝黎詩) and CellCare (秀可兒) stores, experienced temporary closures while other fixed costs (such as staff costs, rental expenses and other operation related expenses) continued to incur during the corresponding period; (ii) our gross profit margin remained stable in 2020 and 2021 while our gross profit increased significantly during the same period, primarily due to the revenue contribution from traditional beauty services increased from 2020 to 2021; and (iii) our overall gross profit margin decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to the negative impact of the Recurrence, which caused many stores experienced temporary closures while other fixed costs continued to incur during the corresponding period.

Our Store Networks

We offer traditional beauty services under the brands of BeautyFarm (美麗田園) and Palaispa (貝黎詩), aesthetic medical services under CellCare (秀可兒) and subhealth assessment and intervention services under Neology (研源), and have formed a large

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coverage of middle-to-high end consumers in China. During the Track Record Period, the number of our BeautyFarm (美麗田園) stores increased from 119 as of December 31, 2019 to 138 as of December 31, 2021 and remained stable at 139 as of June 30, 2022. The number of our Palaispa (貝黎詩) stores remained relatively stable during the Track Record Period and was 16 and 15 as of December 31, 2019 and June 30, 2022, respectively. The number of our CellCare (秀可兒) stores expanded from 14 as of December 31, 2019 to 18 as of December 31, 2021, and remained stable at 18 as of June 30, 2022. The number of our Neology (研源) healthcare centers remained relatively stable during the Track Record Period and was five, five and five as of December 31, 2019 and 2021 and June 30, 2022, respectively. Aside from the above four main brands, historically we also created XURFACE in 2018 as our attempt to target younger clients for traditional beauty services (including the use of skincare equipment in combination with skincare products to keep skin hydrated, lighten the skin, or soften the appearance of fine lines, wrinkles and sagging skin) and ceased the operations of the three XURFACE stores in early 2020. For details, see “Business — Our Store Operation Model — Direct Store Model” in this prospectus. Following our inception, we firstly established our presence in tier-one cities with large populations and high *per capita* income. As of June 30, 2022, we had 84 direct stores in three tier-one cities, namely Beijing, Shanghai, and Shenzhen, and additional 73 direct stores in new tier-one cities, namely, Chengdu, Hangzhou, Chongqing, Xi’an, Suzhou, Wuhan, Nanjing, Tianjin, Zhengzhou, Changsha, Dongguan, Foshan, Ningbo, Qingdao, and Shenyang, representing 88.7% of our total direct stores. In addition, within our store network, there were 175 stores operated by our franchisees, as of June 30, 2022, to expand our client scale, location coverage and service offerings. The following map sets forth the relevant information of our store network as of June 30, 2022:



Note: As of June 30, 2022

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KEY OPERATING METRICS

For traditional beauty services and aesthetic medical services, we recorded an increase in number of active members served from 2019 to 2021; corresponding with the average spending per active member. For subhealth assessment and intervention services, our number of active members served increased and the average spending per active member decreased, due to various business consolidation.

The following table sets forth certain key performance indicators of our services by our direct stores for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Traditional beauty services				
– Number of active members served	69,895	67,178	75,548	59,632
– Average spending per active member* (RMB)	10,596	10,866	11,843	6,008
Aesthetic medical services				
– Number of active members served	12,683	14,291	16,896	12,476
– Average spending per active member* (RMB)	36,631	39,471	39,833	22,087
Subhealth assessment and intervention services				
– Number of active members served	1,895	3,305	2,675	1,723
– Average spending per active member* (RMB)	33,959	27,567	16,364	11,930

Note:

* Refers to an utilized amount for the year/period.

Traditional Beauty Services

The number of active members served for our traditional beauty services slightly decreased from 2019 to 2020, which was largely due to the restrictions on mobility and social interaction as a result of the COVID-19 pandemic. Such number rebounded as the pandemic gradually came under control in 2021. The number of active members served for our traditional beauty services increased from the six months ended June 30, 2021 to the six months ended June 30, 2022. Though our stores in cities such as Shanghai, Shenzhen,

SUMMARY

Nanjing and Changchun experienced temporary closure due to the regional outbreak of the COVID-19, the majority of our active members had visited our stores before such regional outbreak.

The average spending per active member for our traditional beauty services increased from 2019 to 2020, and we recorded continuous growth of such average spending in 2021. The average spending per active member for our traditional beauty services decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to the decrease in the total spending of our active members. The regional outbreak of the COVID-19 not only led to the temporary closure of our stores, but also influenced the frequency of active members visits, since our active members might be imposed of stay-at-home orders by local authorities, or they might have lower spending willingness. Consequently, the average spending per active member, which is calculated based on the total spending of active members divided by the number of active members served decreased accordingly.

Aesthetic Medical Services

We recorded continuous growth in the number of active members served for our aesthetic medical services from 2019 to 2021, and an increase from the six months ended June 30, 2021 to the six months ended June 30, 2022, as we expanded our aesthetic medical service network and the demand for aesthetic medical services was relatively less elastic.

The average spending per active member for our aesthetic medical services constantly increased from 2019 to 2021. From the six months ended June 30, 2021 to the six months ended June 30, 2022, the average spending per active member decreased, primarily due to the decrease in the total spending of our active members which was largely due to the regional outbreak of the COVID-19.

Subhealth Assessment and Intervention Services

We maintained a large base of active members for our subhealth assessment and intervention services during the Track Record Period primarily because of the expansion of our network of subhealth assessment and intervention services since the second half of 2019 and an increasing number of clients became aware of our subhealth assessment and intervention services since its introduction in 2018.

The average spending per active members for our subhealth assessment and intervention services decreased from 2019 to 2020, largely due to the impact of the COVID-19 pandemic, and it further decreased in 2021 as a result of less clients served. The regional outbreak of the COVID-19 negatively impacted the operational performance of our subhealth assessment and intervention services, contributing to the decrease in the average spending per active members from the six months ended June 30, 2021 to the six months ended June 30, 2022.

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The following table sets forth certain key performance indicators of our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores by development stage and certain key performance indicators of our CellCare (秀可兒) stores and Neology (研源) healthcare centers during the Track Record Period:

	As of or for the year ended December 31,			As of or for the six months ended June 30,
	2019	2020	2021	2022
Number of stores				
Traditional beauty service stores				
– Newly-established stores	34	33	35	31
– Developing stores	52	50	53	50
– Matured stores	49	57	66	73
CellCare stores	14	17	18	18
Neology healthcare centers	5	4	5	5
Total	154	161	177	177
Revenue (in thousands of RMB)				
Traditional beauty service stores				
– Newly-established stores	77,183	91,361	103,971	43,010
– Developing stores	257,515	225,054	263,482	89,350
– Matured stores	425,128	440,593	573,904	250,684
CellCare stores	464,586	564,076	673,025	275,556
Neology healthcare centers	64,353	91,110	43,772	20,555
Total	1,288,765	1,412,194	1,658,154	679,155

Our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores can be categorized into three groups based on their respective opening date, namely newly-established stores (i.e., stores that have been established for less than three years), developing stores (i.e., stores that have been established for at least three years, but less than eight years) and matured stores (i.e., stores that have been established for at least eight years). As of June 30, 2022, we had 31 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in newly-established stage, 50 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in developing stage, and 73 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in matured stage.

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We, however, do not manage our CellCare (秀可兒) stores and Neology (研源) healthcare centers by stages. Instead, we only proceed to open a CellCare (秀可兒) store or a Neology (研源) healthcare center in a city where we see clear and sufficient demand for aesthetic medical services and subhealth assessment and intervention services from our existing traditional beauty service clients in the same city. Therefore, our CellCare (秀可兒) stores and Neology (研源) healthcare centers normally do not experience a long ramp-up period. As of June 30, 2022, we had 18 CellCare (秀可兒) stores and five Neology (研源) healthcare centers.

Our stores generally have achieved growth during the Track Record Period. However, we experienced negative same-store growth rate across our developing and matured stores of traditional beauty service stores, CellCare stores and Neology healthcare centers and may continue to experience negative same-store growth rate in the future. For more details of the relevant risks, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Our Customers — We may not be able to maintain and increase the sales and profitability of our existing stores” in this prospectus.

MARKET AND COMPETITION

The traditional beauty service market in China is highly fragmented and market players in traditional beauty service market in China mainly include domestic and international traditional beauty service providers with individual and chain stores in the PRC. According to Frost & Sullivan, its market size reached RMB403.2 billion in 2021, and is projected to grow at a CAGR of 5.3% to RMB640.2 billion in 2030. We have been dedicated to providing traditional beauty services since 1993. We are primarily operating in China’s traditional beauty service industry. As the largest provider of traditional beauty services in terms of market shares of 0.2%, as measured by revenue in 2021, leveraging our brand awareness, nationwide store coverage and client base, we believe we are well-positioned to capture this industry trend.

Aesthetic medical services include non-surgical aesthetic medical services and surgical aesthetic medical services. Market players in non-surgical aesthetic medical service market in China mainly include public and private hospitals, chained and independent aesthetic medical institutions that provide non-surgical aesthetic medical services. According to Frost & Sullivan, its market size reached RMB97.7 billion in 2021, and is forecasted to reach RMB415.7 billion in 2030, with a CAGR of 17.5% from 2021 to 2030. Our Group ranked fourth among competitors in China’s market, with a market share of 0.6% as measured by revenue in 2021. Market players in surgical aesthetic medical service market in China mainly include public and private hospitals and chained aesthetic medical institutions. The Company does not focus on this market and provides only periocular beauty procedures, double eyelid construction, lipofilling services and liposuction surgeries, which are all categorized as Grade I procedures, where are of lowest complexity and risks.

The subhealth assessment and intervention service market is an emerging market at a relatively early stage. Existing players in traditional beauty service market or non-surgical aesthetic medical service market may add subhealth assessment and intervention services to their service portfolios. According to Frost & Sullivan, its market

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size reached RMB7.0 billion in 2021, and is forecasted to reach RMB29.0 billion in 2030, with a CAGR of 17.1% from 2021 to 2030. In terms of revenue generated from subhealth assessment and intervention services in 2021, the Company's market share is approximately 0.9%. For more details of our market position and the competitive landscape of the markets, see "Industry Overview" in this prospectus.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated statements of profit or loss for the Track Record Period, derived from the Accountants' Report set out in Appendix I. The summary consolidated financial data set forth below should be read together with the consolidated financial statements in this prospectus, including the related notes. Our consolidated financial information was prepared in accordance with HKFRS.

Selected Consolidated Statements of Profit or Loss

The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	<i>% of Revenue</i>	<i>RMB'000</i>	<i>% of Revenue</i>	<i>RMB'000</i>	<i>% of Revenue</i>	<i>RMB'000</i>	<i>% of Revenue</i>	<i>RMB'000</i>	<i>% of Revenue</i>
							(Unaudited)			
Revenue	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0
Cost of sales and services	(696,411)	(49.6)	(803,272)	(53.4)	(946,954)	(53.2)	(447,879)	(53.5)	(420,289)	(57.2)
Gross profit	708,341	50.4	700,024	46.6	833,786	46.8	388,951	46.5	314,029	42.8
Operating profit	207,175	14.7	213,325	14.2	278,035	15.6	139,001	16.6	37,047	5.0
Profit before										
income tax	179,763	12.8	188,531	12.5	255,102	14.3	127,282	15.2	26,040	3.5
Income tax expenses	(32,340)	(2.3)	(36,346)	(2.4)	(46,761)	(2.6)	(22,175)	(2.6)	(6,191)	(0.8)
Profit for the year/period	147,423	10.5	152,185	10.1	208,341	11.7	105,107	12.6	19,849	2.7
Profit attributable to:										
Owners of the Company	140,329	10.0	150,959	10.0	193,475	10.9	96,947	11.6	15,123	2.1
Non-controlling interests	7,094	0.5	1,226	0.1	14,866	0.8	8,160	1.0	4,726	0.6
	147,423	10.5	152,185	10.1	208,341	11.7	105,107	12.6	19,849	2.7

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Non-HKFRS Measure

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use non-HKFRS measure, namely, adjusted profit for the year or period, as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We define adjusted profit for the year or period as profit for the year or period by adding back share-based compensation expenses and listing expenses. Share-based payment expenses are non-cash expenses arising from share awards granted to certain general management personnel and employees and do not result in cash outflow. Listing expenses are expenses in relation to the Listing and the Global Offering. We have made the adjustments consistently during the Track Record Period complying with Guidance Letter HKEX-GL103-19 issued by the Stock Exchange.

We therefore believe that these items should be adjusted for when calculating our adjusted net profit in order to provide potential investors with a complete and fair understanding of our core operating results and financial performance, so that they can assess our underlying core performance undistorted. For details, please see “Financial Information — Non-HKFRS Measure” in this prospectus. The following table reconciles our net profit for the year or period presented to the most directly comparable financial measure calculated and presented under HKFRS:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year/period	147,423	152,185	208,341	105,107	19,849
Adjustments:					
Share-based					
compensation expenses	1,592	6,988	6,290	2,852	6,419
Listing expenses	-	-	12,063	-	24,373
Adjusted profit (non-HKFRS measure) for the year/period	<u>149,015</u>	<u>159,173</u>	<u>226,694</u>	<u>107,959</u>	<u>50,641</u>

Our business continued growing from 2019 to 2021, and our net profit consequently increased steadily from RMB147.4 million in 2019 to RMB152.2 million in 2020, and further to RMB208.3 million in 2021, with a stable net profit margin of 10.5%, 10.1% and 11.7% in the three years respectively. The outbreak of COVID-19 and accompanying social distancing restrictions negatively impacted our operations in early 2020, but the demand soon resumed in the second half after the pandemic became contained, and consequently we still managed to record an increasing net profit in 2020 as compared to 2019 though with a slightly lower net profit margin. In the first six months of 2022, however, our net profit decreased to RMB19.8 million from RMB105.1 million in the same period of 2021,

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and net profit margin dropped from 12.6% to 2.7%, primarily as a result of the Recurrence of COVID, mobility restriction, and in particular the strict lockdown in Shanghai where we operated 41 direct stores. In addition, we incurred share-based compensations of RMB6.4 million and listing expenses of RMB24.4 million, which resulted in the decrease in our profit for the six months ended June 30, 2022. For details, see “Financial Information — Results of Operations” in this prospectus.

Summary Data From Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	1,162,736	1,116,451	1,167,832	1,186,976
Current assets	655,891	986,737	1,309,480	1,201,564
Current liabilities	1,326,456	1,588,319	1,853,753	1,839,727
Net current liabilities	670,565	601,582	544,273	638,163
Non-current liabilities	439,416	374,161	361,023	368,355
Net assets	52,755	140,708	262,536	180,458
Non-controlling interests	5,417	(165)	5,173	16,251

We had net current liabilities of RMB670.6 million, RMB601.6 million, RMB544.3 million and RMB638.2 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. The largest current liability item during the Track Record Period was contract liabilities. They represent the payments in advance by our customers and it does not require incremental spending to fulfill our service obligations other than maintaining our facilities and service crew. In our operation, for every dollar we receive from our customers in prepayments, we will use a portion to fund our daily operation or save them in liquid form of financial assets at fair value through profit or loss, while we will also invest some in long-term assets to fund our growth, such as property, plant and equipment or right of use assets. This business model — reasonable and commonly seen in the industry — inevitably creates net current liability position, but we see no liquidity concern due to the reasons stated above as well as our strong ability to generate cash from operation.

From the changes in equity level, our net asset increased from RMB52.8 million in 2019 to RMB140.7 million in 2020, primarily due to the profit for the year of RMB152.2 million, which was partially offset by the dividends declared of RMB72.8 million. Our net asset further increased from RMB140.7 million in 2020 to RMB262.5 million in 2021, primarily due to (i) the profit for the year of RMB208.3 million and (ii) disposal of the Shanghai Beauty Farm’s shares through a limited partnership reserved for employee share scheme of RMB18.3 million. Such increase was partially offset by (i) dividends declared of RMB86.7 million and (ii) transactions with non-controlling interests of RMB21.6 million. Our net asset decreased to RMB180.5 million as of June 30, 2022, primarily due to the dividend declared of RMB122.5 million, which was partially offset by the profit for the period of RMB19.8 million.

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Summary Consolidated Statements of Cash Flows

The following table sets forth our consolidated statements of cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Net cash flows generated from operating activities	463,310	680,532	669,933	254,749	128,685
Net cash flows generated from/(used in) investing activities	(256,732)	(368,943)	(385,347)	(93,048)	172,994
Net cash flows used in financing activities	(250,221)	(273,330)	(271,065)	(174,781)	(309,679)
Cash and cash equivalents at end of the year/period	104,819	143,538	157,284	130,291	149,696

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

During the Track Record Period and up to the Latest Practicable Date, we were a party to a limited number of litigations primarily arising from disputes on rental agreement, service contract, clients' missing items, trademark, franchise agreement and medical disputes. As of the Latest Practicable Date, we had only two pending litigations, namely, trademark dispute in Inner Mongolia which was under review with amount involving RMB3.0 million and franchise agreement dispute in Hubei on which the trial court rendered a verdict partially ruling in favor of our Company in December 2022, with amount involving RMB1.1 million, respectively. For details, see "Business — Legal Proceedings — Trademark and Franchise Agreement Disputes" in this prospectus. We were also involved in a limited number of labor arbitrations and mediations due to disputes on employment termination or employee salaries and as of the Latest Practicable Date, such labor arbitrations and mediations had been properly resolved and had non-material impact on our general operations. As of the Latest Practicable Date, save for the two pending litigations as disclosed above, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation. For details, see "Business — Legal Proceedings" in this prospectus.

Non-Compliance

During the Track Record Period and up to the Latest Practicable Date, we experienced certain non-compliance incidents, including failure to obtain the required as-built acceptance check on fire prevention or fire safety filing and/or fire safety inspection certificate ("**Fire Safety Inspection Approvals**"). As of the Latest Practicable Date, we had fully rectified the non-compliance incidents in relation to failure in

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obtaining the required Fire Safety Inspection Approvals for all our direct stores and franchised stores in operation as of the Latest Practicable Date. For details, see “Business — Compliance, Licenses and Permits — Fire Safety” in this prospectus. We have adopted a number of enhanced internal control measures to prevent the recurrence of similar non-compliances, including (i) regular compliance review from senior management, including Mr. Li, our chairman of our Board, Mr. Lian, our chief executive officer, and Ms. Zhou, our chief financial officer, on internal control and compliance measures; (ii) establishing a compliance management inspection team comprising staff from our legal and compliance department as well as audit department, which will assist our senior management in monitoring and supervising the rectification of the identified non-compliances, and in preventing the recurrence of similar non-compliances; and (iii) arranging our Directors, officers and other employees to attend training sessions conducted by our PRC Legal Advisers on applicable laws, regulations and rules in relation to our operation. See “Business — Compliance, Licenses and Permits” for more information about the non-compliance incidents and the rectification measures we took in relation thereto, and see “Business — Internal Control and Risk Management” for more information about the enhanced internal control measures we adopted to prevent the recurrence of the non-compliances and their implementation status. See “Risk Factors — Risks Relating to Our Business and Industry” in this prospectus for the various risks in this regard.

OUR CLIENTS AND SUPPLIERS

Major Customers

During the Track Record Period, our customers mainly consisted of individual clients and franchisees. None of the total sales to any clients accounted for more than 0.5% of our total revenue and the sales to our five largest customers in total accounted for less than 2.0% of our total revenue during the Track Record Period. For our individual members, we generally enter into standard membership agreement with them, under which eligibilities, rights, privileges and obligations of our membership are stipulated.

Major Suppliers

During the Track Record Period, our suppliers primarily included suppliers of body and skin care products and medical consumables. During the Track Record Period, we did not experience any interruption in our supplies, shortage of supplies, early termination of supply agreements, or failure to secure sufficient supplies that had any material adverse impact on our business or results of operations. Our suppliers generally offer us a credit term of 0 to 90 days. We typically settle trade payable obligations with respect to our suppliers through bank transfers.

For each of 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from our five largest suppliers in each year/period during the Track Record Period amounted to RMB78.9 million, RMB86.4 million, RMB154.8 million and RMB70.0 million, respectively, representing approximately 46.5%, 41.0%, 48.8% and 52.4%, respectively, of our total purchases for the respective periods. For each of 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from our largest supplier in each year/period during the Track Record Period amounted to RMB22.8 million, RMB28.7 million, RMB48.6 million and RMB29.3 million, respectively, representing approximately 13.5%, 13.6%, 15.3% and 21.9%, respectively, of our total purchases for the respective periods. For details

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of concentration risk, see “Risk Factors — Risks Relating To Our Business and Industry — Risk Relating To Our Suppliers and Employees — We have engaged a limited number of suppliers, which may render us vulnerable to supply shortages and price fluctuations” in this prospectus.

SUMMARY OF MATERIAL RISK FACTORS

Our business faces risks including those set out in the “Risk Factors” section. As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the “Risk Factors” section in its entirety before you decide to invest in our Shares. Some of the major risks that we face include: (i) any negative public perception of our brand or reputation will materially and adversely affect our business; (ii) the beauty and health management services provided by us are discretionary in nature and the customer demand of such services and the Group’s business and financial performance is vulnerable to economic turmoil and downturn, changes in macroeconomic environment and COVID-19 pandemic; (iii) our operations and business plans may be adversely affected by the COVID-19 pandemics; (iv) we are subject to customer complaints, claims and legal proceedings in the regular course of our operations; (v) we may not be able to obtain, maintain or renew all the permits, licenses, certificates and other regulatory filings; (vi) ongoing regulatory reforms in the beauty and health management service industry are unpredictable in the PRC, and we may be subject to new or more stringent regulations, which may result in significant additional expenses and we may be subject to penalties; (vii) the beauty and health management service market may not grow as anticipated, which would materially and adversely affect our business, results of operations and financial conditions; (viii) our business performance may be negatively affected by unfavorable public perception of the overall beauty and health management service industry; (ix) we face risk of impairment loss relating to the goodwill recognized in connection with acquisitions and impairment losses relating to intangible assets could materially affect our profits; and (x) if our employees, customers, suppliers or other business partners engage in illegal, fraudulent, improper or unethical conduct, such as bribery and corruption, we may be subject to potential liability and negative publicity, and our reputation as well as business could be harmed.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Store Network

As of the Latest Practicable Date, our store network consisted of 191 direct stores and 179 franchised stores.

Impact of COVID-19 Outbreak

In an effort to control the spread of the COVID-19 pandemic, China took precautionary measures, such as travel restrictions, quarantines, remote working, cancellation of public events, and recommendations against travel for leisure, among others. These measures adversely affected our operations and financial performance during the Track Record Period.

Strict social distancing restrictions and temporary store closures were imposed after the COVID-19 emerged in early 2020. It significantly restricted our ability to provide our face-to-face services to our clients, and some customers remained hesitant to have

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in-person services such as spas or massages even after the restrictions were relaxed or lifted. Stores in our network were closed temporarily due to cautionary measures.

Our network expansion was also affected. While we managed to increase the number of our direct stores and franchised stores according to our plan, stores opened in 2020 were nevertheless afforded less time to organize their operations and ramp up, and their results of operations have been negatively affected. Meanwhile, we have experienced and may continue to experience impacts caused by business disruptions to certain of our suppliers as a result of the COVID-19 pandemic.

We currently do not anticipate any material deviation from our operation and expansion plan due to the COVID-19 pandemic. We believe that the level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

We cannot guarantee you, however, that the COVID-19 pandemic will not further escalate or have a material adverse effect on our results of operations, financial position or prospects. Recently, there has been an increasing number of COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in multiple cities in China. The Chinese local authorities have reinstated certain measures to keep COVID-19 in check, including travel restrictions and stay-at-home orders, and we may have to adjust various aspects of our operations. In addition, the highly-transmissible Delta and Omicron variants of COVID-19 have caused many governmental authorities to reimpose restrictions such as mask mandates, curfews and prohibitions on large gatherings. The recent emergence of the Omicron virus variant ("**Recurrence**"), a COVID-19 virus variant that is more infectious than its predecessors, created uncertainties for our business operations and our business was affected in the following ways:

- **Operations:** We took a series of measures in response to the outbreak to protect our employees and business operations. Since March 2022 to late November 2022, a total of 167 direct stores in 18 cities have experienced temporary closures to certain degree, to actively comply with the relevant government policies related to prevention and control of COVID-19 pandemic. As of late November 2022, we had 42 direct stores still in closure. Specifically, the average store closure days for direct stores that had resumed operations were approximately 38 days. In particular, since March 2022 to late November 2022, 74 direct stores in Shanghai and Beijing were temporarily closed, and the average store closure days for direct stores that had resumed operations in Shanghai and Beijing were approximately 52 days. In addition, our franchised stores also experienced temporary closures during the corresponding period. Specifically, since March 2022 to late November 2022, 147 franchised stores (including both BeautyFarm (美麗田園) and Palaispa (貝黎詩) franchised stores) were temporarily closed, and the average store closure days for franchised stores that had resumed operations were approximately 32 days.

Furthermore, at the time when COVID-19 was relatively under control in July and August of 2022, our operating income achieved year-on-year growth, with some cities achieving year-on-year growth of 20% or more. Specifically, in the week of June 23, 2022, our business operations in Shanghai had gradually resumed to the normal operation, and the client traffic recovered for approximately 86% and client spending recovered for approximately 97% as

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compared with that of the same period in 2021. Since November 2022, there are sporadic outbreaks in multiple regions and certain of our direct and franchised stores have experienced store closure to comply with relevant government policies. We have been actively monitoring the development of COVID-19 in China.

To minimize the impact of COVID-19 outbreak, we take active measures, including (i) promoting our services through online channels during the Recurrence. As a result, we have a stable number of clients and members who are willing to purchase prepaid packages from us during the Recurrence. In particular, we use live broadcasting, online interaction among members and community group purchase during the Recurrence to tackle the continuous impact of COVID-19. We expect our aesthetic medical services will increase because of the low elasticity of customers' demand of such services — clients who did not receive the service during the COVID-19 restriction of mobility and social interaction would mostly seek the service once the restriction is lifted; (ii) in respect of the overall management, we continue to apply stringent financial management procedures and control our investments in fixed assets. We reduce non-essential and non-emergency expenses, such as costs in relation to traveling and team building; (iii) our management team voluntarily suspends approximately RMB0.6 million of their remuneration in total during this period and their remuneration will resume to the normal level once we have recovered from the Recurrence in the next few months.

- **Product sales and supply chain:** The sales of our products and supply chain have been affected by the COVID-19 pandemic. Lockdowns and limitation on mobility affected our abilities to ship our products to franchised stores and other direct stores. We experienced slight delay in our supply procurement but did not experience significant fluctuations in the prices of our supplies. As the Recurrence gradually became contained, the delivery of products from warehouses has resumed normal.
- **Training:** Our employees are required to participate pre-work training and will participate another session prior to their promotions or introduction of new services. Due to the impact of Recurrence, we were unable to provide offline trainings as scheduled. However, we believe the impact of Recurrence on our training is temporary and we actively implement online training programs which allow our service personnel to participate at home. We also introduced tech-enabled solutions such as AI tools to simulate offline training scenarios. Through those tech-enabled tools, we are able to provide required trainings and evaluations on time and better prepare for the recovery of the Recurrence.

There remain significant uncertainties surrounding the COVID-19 pandemic, including the existing and new variants of COVID-19, and its further development as a global pandemic, including the effectiveness of vaccine against existing and any new variants of COVID-19. The extent of any business disruption and the related impact on our financial results and outlook cannot be reasonably estimated at this time. For more details, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Our Services and Products — Our operations and business plans may be adversely affected by the COVID-19 pandemics” in this prospectus.

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Recent Amendments on PRC Laws and Regulations

Regulations in Relation to our Services

On May 28, 2021, the SAMR, SATCM, NHC, NMPA, CCAC, among others, jointly promulgated the Notice of Special Rectification Work Plan for Cracking Down on Illegal Aesthetic Medical Services (關於印發打擊非法醫療美容服務專項整治工作方案的通知) effective as of the same date, which stipulate that in order to further safeguard the legitimate rights and interests of consumers and protect people's health and life safety, the SAMR, SATCM, NHC, NMPA, CCAC, among others, are scheduled to carry out special rectification work against illegal aesthetic medical services nationwide from June to December 2021. The work tasks mainly include: (i) severely crack down illegal activities related to medical beauty, (ii) strictly standardize the behavior of aesthetic medical service, (iii) severely crack down the illegal manufacture, sale of drugs and medical devices, and (iv) seriously investigate and prosecute illegal advertising and internet information.

We have fully complied with the Notice of Special Rectification Work Plan for Cracking Down on Illegal Aesthetic Medical Services (關於印發打擊非法醫療美容服務專項整治工作方案的通知), and will continue to ensure our compliance with such notice in our future operations. We believe that such notice has not had, and will not have, any material impact on our ongoing and future operations.

In addition, the traditional beauty service industry has been under increased regulatory oversight in recent years. In particular, there is an increased focus on preventing false advertising, efficacy-related misrepresentations and illegal labeling for skin-related beauty products. In addition, products sold to distributors or medical institutions have been under regulatory scrutiny such as the compliance with applicable anti-corruption and anti-bribery laws in recent years. The continued or heightened regulatory oversight and scrutiny on our relevant services may impact our business in the future.

Foreign Investment

Pursuant to the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行證券和上市備案管理辦法(徵求意見稿)) published in December 2021 (collectively, the "**Draft Regulations for Comments**"), assuming the Draft Regulations for Comments had come into effect and were implemented with their current contents and in their current form, our proposed Listing would constitute an indirect overseas issuance of shares and listing by a domestic enterprise and therefore would be required to comply with the filing procedures and submit the relevant information to the CSRC.

However, as advised by our PRC Legal Advisers, this would not have a material and adverse impact on our business operations and our proposed Listing for the following reasons:

- (i) On December 24, 2021, CSRC held a press conference in relation to the Draft Regulations for Comments, during which the spokesperson of the CSRC stated that "conditional upon complying with the domestic laws and

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regulations, enterprises with VIE structure that have met the compliance requirements may seek listing overseas after completing proper filing procedures". Our reorganization and the Contractual Arrangement do not violate the M&A Rules or other relevant PRC laws and regulations and the registration under SAFE Circular 37 has been duly completed;

- (ii) As of the Latest Practicable Date, there are no laws, regulations or regulatory documents cited by the CSRC in effect that would explicitly require us to comply with any approval, verification or filing procedures for our proposed Listing. If the Draft Regulations for Comments are promulgated and implemented with their current contents and in their current form, there is no material obstacles for us to comply with the filing procedures under the Draft Regulations for Comments for the followings: (a) there are no specific clauses in national laws and regulations and relevant provisions prohibiting our proposed Listing; (b) we have not received any inquiry, notice, warning, or sanctions regarding cybersecurity review, the listing plan or other national security related issues;
- (iii) Based on the assessment of our PRC Legal Advisers, we do not fall into the scope of any of the following circumstances under which overseas securities offering and listing by domestic companies should be prohibited, as prescribed in the Drafts for Comments: (a) there are material ownership disputes over the equity, major assets, and core technology, etc.; (b) our domestic company or its controlling shareholders and actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations; (c) the directors, supervisors, or senior management have been subject to administrative punishments for severe violations in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations;
- (iv) Each of our domestic subsidiaries has formulated its articles of association, improved its internal control system and regulated its corporate governance and financial and accounting practices in accordance with the Company Law of the PRC, the Accounting Law of the PRC and other PRC laws and regulations;
- (v) We have established a confidentiality system and taken necessary steps to implement our duty of confidentiality. At the same time, we have established data security management policies and procedures and personal information protection policies and procedures to ensure our data security and compliance processing, and as advised by Tian Yuan Law Firm, as of the Latest Practicable Date, we had complied with all applicable requirements on cybersecurity and data protection as stipulated in the Draft Regulations for Comments in all material aspects;
- (vi) The planned use of proceeds from the Global Offering is in compliance with the requirements of the relevant regulations of the PRC.

Furthermore, the Negative List requires that a domestic enterprise engaged in businesses which are prohibited from foreign investment must complete an examination

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process and obtain approval of the relevant PRC competent authorities when it seeks to issue and list its shares overseas. However, according to the National Development and Reform Commission's response at a press conference held on January 18, 2022, this requirement only applies to direct overseas listing of domestic companies, i.e. H-shares listings. Moreover, our businesses do not fall into the category of businesses prohibited from foreign investment as stipulated in the Negative List. Therefore, this requirement does not apply to our plan to list on the Stock Exchange utilizing contractual arrangements.

However, as advised by our PRC Legal Advisers, there are substantial uncertainties regarding the promulgation, implementation, interpretation and application of the Draft Regulations for Comments accordingly, and there can be no assurance that the regulations on overseas listing officially issued in the future will not have different contents from the Draft Regulations for Comments and that the PRC governmental authorities will not take a view that is different or otherwise contrary to the above opinion of our PRC Legal Advisers.

Estimated Decrease in Net Profit for 2022

We currently estimate that our net profit for 2022 would decrease as compared to 2021. Due to the regional resurgence of COVID-19 cases in certain areas in China, especially the strict lockdown in Shanghai, as disclosed in “— Impact of the COVID-19 Outbreak” above, our revenue growth in 2022 might be negatively affected. Meanwhile, we expect that our operating expenses would significantly increase for 2022 as compared to 2021, primarily due to an increase in general and administrative expenses, mainly attributable to the listing expenses incurred in relation to the Global Offering.

Declaration of Dividends

At the shareholders' general meeting held on December 8, 2022, Shanghai Beauty Farm declared a dividend in the amounts of approximately RMB71.9 million. We paid such dividend on December 16, 2022 by using our internal resources including but not limited to, cash and cash equivalent, and financial assets at fair value through profit or loss, which in aggregate amounted to approximately RMB1.0 billion as of October 31, 2022. We believe that the distribution of the dividend will not have a material impact on the sufficiency of our working capital after the Listing and we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations.

No Material Adverse Change

Our Directors confirm that up to the date of this prospectus, other than as disclosed under the “Recent Developments and No Material Adverse Change” in the “Summary” section in this prospectus, there had been no material adverse change in our financial, operational or prospects since June 30, 2022, being the latest balance sheet date of our consolidated financial statements as set out in the Accountant's Report in Appendix I to this prospectus.

APPLICATION FOR THE OFFER SHARES

The application for the Hong Kong Offer Shares will commence on Friday, December 30, 2022 through Friday, January 6, 2023, being slightly longer than normal

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market practice of four days. The application monies (including brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicant(s) without interest on Friday, January 13, 2023. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Monday, January 16, 2023.

GLOBAL OFFERING STATISTICS⁽¹⁾

The statistics in the following table are based on the assumptions that the Global Offering are completed and 40,536,500 Shares, comprising 24,395,500 New Shares and 16,141,000 Sale Shares, are offered in the Global Offering.

	Based on the Offer Price of HK\$19.32 per Offer Share
Market capitalization of our Shares ⁽²⁾	HK\$4,454.8 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽³⁾	HK\$1.61

Notes:

- (1) All statistics in this table are on the assumption that the Over-allotment Option are not exercised.
- (2) The calculation of market capitalization is based on 230,581,068 Shares expected to be in issue immediately after completion of the Global Offering.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Offer Share is calculated after making the adjustments referred to in "Financial Information — Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and on the basis that 224,395,500 Shares were in issue assuming the Global Offering has been completed on June 30, 2022 without taking into account of the (i) dividend of RMB71,924,000 declared on December 8, 2022; and (ii) 6,185,568 Shares to be granted after June 30, 2022 and vested over 4 years of service from date of grant pursuant to the Share Incentive Plan upon completion of Capitalization Issue. However, had such the (i) dividend of RMB71,924,000 declared on December 8, 2022; and (ii) 6,185,568 Shares been taken into account, such that 230,581,068 Shares are in issue immediately following the completion of the Global Offering, the unaudited pro forma adjusted net tangible assets per Share would have been RMB1.10 (equivalent to HK\$1.23).

SHAREHOLDER INFORMATION

As of the Latest Practicable Date, Mr. Li, Ms. Li, and Yuan Huimin has entered into a concert agreement and Mr. Lian, Niu Guifen, Cui Yuanjun are collectively entitled to exercise voting rights of approximately 55.77% of the total issued share capital of our Company. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), they will be entitled to exercise voting rights of approximately 49.87%. Therefore, Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun, Yuan Huimin together with entities controlled by them, being LIY Holdings, LYBF Management Holdings Limited, LIY Management, LIFY Holdings, LFYE Management Holdings Limited, LIFY Management, Meiyao Holdings, LIANSY Holdings Limited, NIUGF Holdings Limited, LIANSY Family Holdings Limited, CUIYJ Holdings Limited, CUIYJ Management Holdings Limited, YUANHM Holdings Limited, and YUANHM Management Holdings Limited, are regarded as a group of Controlling Shareholders upon Listing.

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CITIC PE has been a Pre-IPO Investor of our Company since December 2013. As of the Latest Practicable Date, CITIC PE, through BVI Xinyu Meiyue, holds 35.93% of our Shares. Mr. Zang Ye, through ZYLot Holdings Limited, invested in our Company in March 2022 and holds 0.19% of our Shares. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), the two Pre-IPO Investors will hold 25.13% and 0.17% of our Shares, respectively. For more details, see “History, Reorganization and Corporate Structure — Pre-IPO Investments” in this prospectus.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER — HAINAN QIYAN

As of the Latest Practicable Date, our Controlling Shareholders are interested in the business of Hainan Qiyuan, a medical services provider based in Bo’Ao, Hainan province. Hainan Qiyuan operates a hospital primarily focused on the provision of frontier medical services with a focus on research, development and application of innovative technologies. Hainan Qiyuan engages in its licensed medical business such as licensed drugs and licensed medical devices as well as the licensed medical research in the Bo’Ao region pursuant to the Regulations of Hainan Free Trade Port Bo’Ao Lecheng International Medical Tourism Pilot Zone (海南自由貿易港博鰲樂城國際醫療旅遊先行區條例) and the Interim Provisions on Clinical Research and Conversion Application of Stem Cell Medical Technology in Hainan Bo’Ao Lecheng International Medical Tourism Pilot Zone (海南博鰲樂城國際醫療旅遊先行區幹細胞醫療技術臨床研究與轉換應用暫行規定). In order to advance its capabilities in the technologies and as part of its business focus to offer its customers with frontier technologies and innovative products, Hainan Qiyuan has made significant commitments on research and development.

Hainan Qiyuan has a different business focus from our Group and provides services that is not otherwise provided by our Group. Hainan Qiyuan has not generated any income from any overlapping services with the Company, including but not limited to traditional beauty services, aesthetic medical services, and subhealth assessment and intervention services which directly or indirectly competes with the Group since the Group’s disposal in December 2020 and will not do so in the future. The Company is of the view that operation of Hainan Qiyuan within our Group would require significant dedication of management attention on frontier technologies and innovative products offerings of Hainan Qiyuan. For details on the delineation of business, please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus. We have also entered into certain continuing connected transaction with Hainan Qiyuan in relation to business cooperation and property leasing, please refer to the section headed “Connected Transactions” in this prospectus.

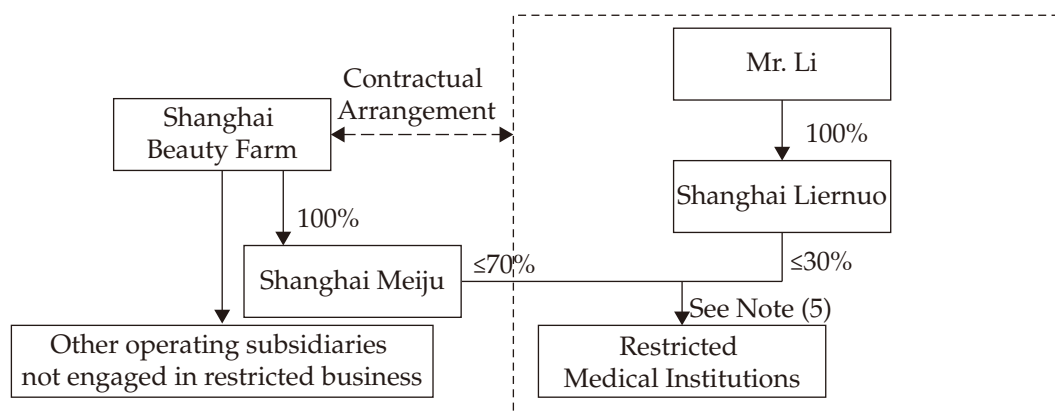
Our Controlling Shareholders has entered into a deed of non-competition in favor of the Company, for more details, see “Relationship with Our Controlling Shareholders — Deed of Non-Competition” in this prospectus.

CONTRACTUAL ARRANGEMENTS

Due to foreign ownership restrictions under PRC Laws, our Company is unable to own or hold 100% equity interest in the Restricted Medical Institutions conducting our businesses. We instead control part of their equity interest in these entities through Contractual Arrangements, through which we are able to consolidate the economic benefits enjoyed by Mr. Li from Shanghai Liernuo. The Contractual Arrangements apply to up to 30% equity interests in our Restricted Medical Institutions. In the opinion of our PRC Legal Advisers, the Contractual Arrangements does not constitute a breach of relevant laws and regulations and would not be deemed invalid or ineffective under the

SUMMARY

relevant PRC laws and regulations. For details, see “Contractual Arrangements” and also “Risk factors — Risks Relating To Our Corporate Structure” in this prospectus. The following simplified diagram illustrates the key aspects of the Contractual Arrangements:



Notes:

- (1) Mr. Li is the registered shareholder of Shanghai Liernuo.
- (2) “ \longleftrightarrow ” denotes direct legal and beneficial ownership in the equity interest.
- (3) “ $\leftarrow\text{---}\rightarrow$ ” denotes contractual relationship.
- (4) “-----” denotes the entities that are subject to the Contractual Arrangements.
- (5) For details of our Restricted Medical Institutions, please refer to the section headed “Contractual Arrangements — Our Contractual Arrangements” in this prospectus.

DIVIDENDS

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, certain companies comprising the Group declared dividends of RMB77.1 million, RMB72.8 million, RMB86.7 million, RMB78.0 million and RMB122.5 million, respectively, to then shareholders. We believe that the distribution of the dividend will not have a material impact on the sufficiency of our working capital after the Listing and we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations. Our historical declarations of dividends may not reflect our future declarations of dividends. For details, see “Financial Information — Dividends” in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$387.2 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, and at an Offer Price of HK\$19.32 per Share. We intend to use the net proceeds from the Global Offering for the following purposes: (i) 67.6%, or approximately HK\$261.7 million, will be allocated to expand and upgrade our service network, including expanding our traditional beauty service network with a focus on tier-one cities and new tier-one cities, expanding and upgrading our store network for aesthetic medical services and subhealth assessment and intervention services in new tier-one cities, and building one flagship beauty and health management service center in each of Shanghai and Beijing; (ii) 10.2%,

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or approximately HK\$39.5 million, will be used for strategic merger and acquisitions of franchised stores; (iii) 12.3%, or approximately HK\$47.6 million, will be allocated to further invest in our IT systems; and (iv) 9.9%, or approximately HK\$38.4 million, will be allocated to the working capital and other general corporate purposes. The Selling Shareholder estimates that it will receive net proceeds from the Global Offering of approximately HK\$297.4 million, at the Offer Price of HK\$19.32 per Share. We will not receive net proceeds from the sale of Sale Shares pursuant to the Global Offering.

In addition to the net proceeds from the Global Offering to be received and allocated, we also plan to utilize our internal liquidity sources to supplement any shortfall in expenditure, if any. Our internal liquidity sources include cash and cash equivalents and highly liquid financial assets at fair value through profit or loss. For details of financial assets at fair value through profit or loss, see “Financial Information — Discussion of Certain Selected Items from the Consolidated Statements of Financial Position — Financial Assets at Fair Value Through Profit or Loss.”

SELLING SHAREHOLDERS

BVI Xinyu Meiye will sell 16,141,000 Sale Shares representing approximately 7.00% of the total issued share capital of our Company immediately upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised). Please refer to the paragraph headed “E. Other Information — 11. Particulars of the Selling Shareholder” in Appendix V to this prospectus.

LISTING EXPENSES

Listing expenses in relation to the Global Offering are estimated to be approximately RMB88.5 million (HK\$98.6 million) (including underwriting commission), at the Offer Price of HK\$19.32 per Share, and assuming the Over-allotment Option is not exercised. Among the total listing expenses, approximately RMB75.6 million, or HK\$84.1 million is expected to be borne by us and approximately RMB13.0 million, or HK\$14.5 million is expected to be borne by the Selling Shareholder. As of June 30, 2022, we incurred a total of RMB40.7 million (HK\$45.4 million) in listing expenses, among which RMB36.4 million were recognized in our consolidated statement of comprehensive income, and RMB4.3 million were recognized in the consolidated statement of financial position to be accounted for as a deduction from equity upon Listing.

We estimate that additional listing expenses of approximately RMB34.8 million (HK\$38.8 million) (including underwriting commissions of approximately RMB31.6 million (HK\$35.2 million), assuming the Over-allotment Option is not exercised and based on the Offer Price of HK\$19.32 per Offer Share) will be incurred by our Company, approximately RMB9.9 million (HK\$11.0 million) of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB24.9 million (HK\$27.8 million) of which is attributable to the issue of shares and will be deducted from equity upon Listing. Our listing expenses as a percentage of gross proceeds is 17.9%, at an Offer Price of HK\$19.32 per Share, and assuming the Over-allotment Option is not exercised. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

DEFINITIONS

In this prospectus, the following expressions shall have the meanings set out below unless the context otherwise requires.

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AFRC”	Accounting and Financial Reporting Council of Hong Kong
“Articles” or “Articles of Association”	our articles of association, as conditionally adopted on December 21, 2022 and will come into effect upon Listing (as amended, supplemented or otherwise modified from time to time), a summary of which is set out in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing Xinyu”	Beijing Xinyu Investment Center (Limited Partnership) (北京信聿投資中心(有限合夥)), a limited partnership established in the PRC on October 28, 2011, ultimately controlled by CITIC PE
“Beijing Youde”	Beijing Youde Investment Management Center (Limited Partnership) (北京宥德投資管理中心(有限合夥)), a limited partnership ultimately controlled by CITIC PE, established in the PRC on October 17, 2011, and which controls Beijing Xinyu
“Board” or “Board of Directors”	our board of Directors
“Business Day”	a day that is not a Saturday, Sunday or public holiday in Hong Kong
“BVI Xinyu Meiye”	Beijing Xinyu Meiye Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability ultimately controlled by CITIC PE, and a substantial Shareholder of our Company
“Capital Market Intermediaries”	the capital market intermediaries as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus

DEFINITIONS

“Cayman Companies Law” or “Cayman Companies Act”	the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, which may be an individual, joint individuals or a corporation
“CCASS Operational Procedures”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“China” or “the PRC”	the People’s Republic of China excluding, for the purposes of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“CITIC PE”	CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司), a company incorporated in the PRC with limited liability on June 6, 2008, which controls Beijing Xinyu and BVI Xinyu Meiyue
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
“Company” or “our Company”	Beauty Farm Medical and Health Industry Inc., a company incorporated in the Cayman Islands on February 10, 2022
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Contractual Arrangement(s)”	a series of contractual arrangements we entered into to allow our Company to exercise control over the business operation of Shanghai Liernuo and certain Medical Institutions which Shanghai Liernuo is interested in and enjoy all the economic interests derived therefrom, as more particularly described in the section headed “Contractual Arrangements” in this prospectus

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and means Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun, Yuan Huimin, LIY Holdings, LYBF Management Holdings Limited, LIY Management, LIFY Holdings, LFYE Management Holdings Limited, LIFY Management, Meiyao Holdings, LIANSY Holdings Limited, NIUGF Holdings Limited, LIANSY Family Holdings Limited, CUIYJ Holdings Limited, CUIYJ Management Holdings Limited, YUANHM Holdings Limited, and YUANHM Management Holdings Limited, and “Controlling Shareholder” means any one of them. For more details, see “Relationship with our Controlling Shareholders” in this prospectus
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	refers to Appendix 14 of the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company or any one of them
“Draft Data Security Regulations”	Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》)
“EIT Law”	the PRC Enterprise Income Tax Law
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong, or any extreme conditions or events, the occurrence of which causes serious interruption to the ordinary course of business operations in Hong Kong
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company
“Frost & Sullivan Report”	the industry report commissioned by us and independently prepared by Frost & Sullivan, summary of which is set forth in the section headed “Industry Overview” in this prospectus

DEFINITIONS

“General Rules of CCASS”	General Rules of CCASS published by the Stock Exchange and as amended from time to time
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “our”, “we”, or “us”	the Company and its subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it
“Hainan Qiyan”	Hainan Qiyan Stem Cell Anti-aging Hospital Co., Ltd. (海南啟研幹細胞抗衰老醫院有限公司), a company incorporated in the PRC with limited liability on January 28, 2016 and formerly an indirectly wholly-owned subsidiary of the Company which was fully transferred to our then Shareholders and their associates on December 25, 2020
“Henan Meiyao”	Henan Meiyao Enterprise Management Consulting Co., Ltd. (河南美耀企業管理諮詢有限公司), a company incorporated in the PRC with limited liability on July 15, 2015 and an entity controlled by Mr. Lian, our executive Director
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	the Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of the HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HKD” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong Offer Shares”	the 4,054,000 Shares initially being offered by us for subscription pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%) on the terms and subject to the conditions described in this prospectus and the GREEN Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering as listed in the paragraph headed “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated Thursday, December 29, 2022 relating to the Hong Kong Public Offering and entered into by, among others, our Company, our Controlling Shareholders, the Selling Shareholder, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators and the Hong Kong Underwriters
“IGHL”	Individual Group Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability and a Shareholder of the Company
“Independent Third Party” or “Independent Third Parties”	person(s) or entity(ies) which, to the best of our Directors’ knowledge, information, and belief, having made all reasonable enquiries, is/are not connected person(s) of our Company within the meaning of the Listing Rules

DEFINITIONS

“International Offer Shares”	the 20,341,500 Shares initially being offered by us for subscription and the 16,141,000 Sale Shares initially being offered for sale by the Selling Shareholder, at the Offer Price under the International Offering, together, where relevant, with any additional Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option, and subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional placing by the International Underwriters of the International Offer Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S, and to persons within the United States who are QIBs in reliance on Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering listed in the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering and to be entered into on or around January 6, 2023, by, among others, our Company, our Controlling Shareholders, the Selling Shareholder, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators and the International Underwriters
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus
“Joint Global Coordinators”	the joint global coordinators as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus

DEFINITIONS

“Joint Sponsors”	the joint sponsors of the Listing as named in “Directors and Parties Involved in the Global Offering”
“Latest Practicable Date”	December 20, 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“LIFY Holdings”	LIFY Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability wholly-owned by Ms. Li
“LIFY Management”	LIFY Management Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability wholly-owned by Ms. Li
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about Monday, January 16, 2023, on which the Shares will be listed and dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“LIY Holdings”	LIY Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability wholly-owned by Mr. Li
“LIY Management”	LIY Management Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability indirectly wholly-owned by Mr. Li
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange

DEFINITIONS

“Medical Institution(s)”	medical institutions operated by our Group, as of the Latest Practicable Date, we own and operate 26 such medical institutions, 20 of which are partially controlled under the Contractual Arrangement in order to comply with foreign investment restrictions under PRC law
“Meiyao Holdings”	MeiYao Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability and is controlled by Mr. Lian, Niu Guifen, Cui Yuanjun and Yuan Huimin through LIANSY Holdings Limited, NIUGF Holdings Limited, LIANSY Family Holdings Limited, CUIYJ Holdings Limited, CUIYJ Management Holdings Limited, YUANHM Holdings Limited, and YUANHM Management Holdings Limited
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOH”	Ministry of Health of the PRC (中華人民共和國國家衛生部), later known as the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會)
“Mr. Li”	Mr. LI Yang, being the chairman of our Board and an executive Director and the father of Ms. Li and a Controlling Shareholder
“Mr. Lian”	Mr. LIAN Songyong, being the chief executive officer and an executive Director, and a Controlling Shareholder of the Company
“Ms. Li”	Ms. LI Fangyu, being a non-executive Director and daughter of Mr. Li and a Controlling Shareholder of the Company
“Ms. Wang”	Ms. WANG Li, being the late-wife of Mr. Li who passed away in 2006

DEFINITIONS

“New Shares”	Shares being offered by our Company for subscription at the Offer Price under the Global Offering, which, for the avoidance of doubt, include the new Shares initially offered by the Company and any new Shares additionally offered by the Company for the Over-allotment Option, if any
“NHC”	the National Health Commission (中華人民共和國國家衛生健康委員會)
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	HK\$19.32 (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027%, Hong Kong Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%)
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“Overall Coordinators”	Morgan Stanley Asia Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited
“Over-allotment Option”	the option to be granted by us to the International Underwriters exercisable by the Overall Coordinators on behalf of the International Underwriters under the International Underwriting Agreement, to require us to allot and issue up to 6,080,000 additional Shares at the Offer Price, representing up to 15% of the total number of Offer Shares initially available under the Global Offering to cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering — Over-allotment Option” in this prospectus
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC

DEFINITIONS

“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, which was last amended and became effective on October 26, 2018, as amended, supplemented or otherwise modified from time to time;
“PRC EIT Rules”	the Implementation Regulations on the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008 and last revised and took effect on 23 April 2019
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisers”	Grandall Law Firm (Shanghai) and Tian Yuan Law Firm
“Pre-IPO Investments”	the pre-IPO investments in our Company undertaken by Beijing Xinyu and Mr. Zang Ye, details of which are set out in the section headed “History, Reorganization and Corporate Structure” in this prospectus
“Principal Share Registrar”	Campbells Corporate Services Limited
“Qualified Institutional Buyers” or “QIBs”	qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act
“Regulation S”	Regulation S under the U.S. Securities Act
“Restricted Medical Institution(s)”	the 20 Medical Institutions which are partially controlled under the Contractual Arrangement in order to comply with foreign investment restrictions under PRC law, further details of the medical institutions are set forth in the section headed “Contractual Arrangements — Our Contractual Arrangements” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act

DEFINITIONS

“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SAFE Circular No. 7”	the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知)
“SAFE Circular No. 37”	the Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知)
“Sale Shares”	the 16,141,000 Shares being offered for sale by the Selling Shareholder at the Offer Price under the International Offering
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國市場監督管理總局), formerly known as the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SCNPC”	the Standing Committee of National People’s Congress (中華人民共和國全國人民代表大會常務委員會)
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“Selling Shareholder”	Beijing Xinyu Meiye Holdings Limited, being the Shareholder which offers the Sale Shares for sale under the Global Offering, particulars of which are set out in the section headed “E. Other Information — 11. Particulars of the Selling Shareholder” in Appendix V to this prospectus

DEFINITIONS

“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
“Shanghai Aiyumei”	Aiyumei (Shanghai) Enterprise Management Co., Ltd. (艾昱美(上海)企業管理有限公司), a wholly-foreign owned entity incorporated in the PRC and a wholly-owned subsidiary of the Company
“Shanghai Beauty Farm”	Shanghai Beauty Farm Medical Healthcare Industry Co., Ltd. (上海美麗田園醫療健康產業有限公司), a company incorporated in the PRC on April 23, 2004 and a wholly-owned subsidiary of the Company
“Shanghai Changcheng”	Shanghai Changcheng Trading Co., Ltd. (上海常騁貿易有限公司), a company incorporated in the PRC with limited liability on October 24, 2013 and an entity controlled by Ms. Li
“Shanghai Chengyun”	Shanghai Chengyun Enterprise Management Consulting Co., Ltd. (上海騁韻企業管理諮詢有限公司), a company incorporated in the PRC with limited liability on November 14, 2018 and an entity controlled by Mr. Li
“Shanghai Liernuo”	Shanghai Liernuo Industry Development Co., Ltd. (上海麗爾諾實業發展有限公司), a company incorporated in the PRC with limited liability on January 21, 2022 and a subsidiary of the Group which is controlled through the Contractual Arrangement
“Shanghai Qishi”	Shanghai Qishi Commercial Management Partnership (Limited Partnership) (上海祈時商業管理合夥企業(有限合夥)), being a limited partnership established in the PRC on December 21, 2020 and a connected person of the Company
“Shanghai Youyi”	Shanghai Youyi Commercial Management Partnership (Limited Partnership) (上海優羿商業管理合夥企業(有限合夥)), a limited partnership established in the PRC on May 16, 2017, and an entity controlled by Mr. Li

DEFINITIONS

“Share(s)”	ordinary share(s) in the capital of our Company with a nominal value of US\$0.000005 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of listing and permission to deal in on the Stock Exchange
“Share Incentive Plan”	The Share Incentive Plan, being the pre-IPO share incentive scheme of the Company approved and adopted by the Company on March 24, 2022, particulars of which are set out in “D. Share Incentive Plan — 1. 2022 Share Incentive Plan” in Appendix V to this prospectus.
“Share Split”	the subdivision of each authorized issued and unissued share of a par value of US\$0.000001 each in the Company into 2 shares of a par value of US\$0.000005 each pursuant to the resolutions passed by our Shareholders on December 21, 2022, the details of which are set out in “Statutory and General Information — A. Further Information about Our Group — 4. Resolutions of the Shareholders of the Company Passed on December 21, 2022” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Stabilizing Manager”	Morgan Stanley Asia Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between LIY Management and the Stabilizing Manager (or its affiliates) on or about Friday, January 6, 2023, pursuant to which the Stabilizing Manager (or its affiliates) may borrow up to an aggregate of 6,080,000 Shares to cover any over-allocations in the International Offering
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs
“Track Record Period”	the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars”, “US\$” or “USD”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Service Provider at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this prospectus in both the Chinese and English languages; in the event of any inconsistency, the Chinese versions shall prevail.

For the purpose of this prospectus, references to “provinces” of China include provinces, municipalities under direct administration of the central government and provincial-level autonomous regions.

Certain amounts and percentage figures included in this prospectus have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this prospectus in connection with us and our business. These may not correspond to standard industry definitions, and may not be comparable to similarly terms adopted by other companies.

“botulinum toxin type A”	a natural protein produced by the bacterium clostridium botulinum. Injection of botulinum toxin type A is intended to reduce wrinkles in the face or body, facial or body contouring
“CAGR”	compound annual growth rate
“collagen”	a natural protein that provides structural support in the body including skin
“contouring”	application of body and skin care procedures in the attempt to improve the shape of an individual’s face or body
“cryolipolysis”	an aesthetic energy-based procedure that destroys fat cells by controlled cooling
“Ellansé”	a Poly-ε-caprolactone-based injectable dermal filler
“Fotona 4D®”	a non-surgical skin lifting procedure resulting in a rejuvenated, natural-looking appearance
“functional medicine”	an approach that focuses on the “root causes” of diseases based on interactions between the environment and the gastrointestinal, endocrine, and immune systems to develop individualized treatment plans
“gastrointestinal disease(s)”	disease(s) involving the gastrointestinal tract, namely the oesophagus, stomach, small intestine, large intestine and rectum, and the accessory organs of digestion, including the liver, gallbladder, and pancreas
“GFA”	gross floor area
“HA-based dermal filler(s)”	injectable hyaluronic acid dermal filler(s)

GLOSSARY OF TECHNICAL TERMS

“hyaluronic acid”	a stabilized viscous glycosaminoglycan, which is injected with the intention to achieve certain aesthetic effects such as filling in facial lines and creases, correction of contour defects or depressions, restoration of volume loss from aging and plumping of lips or cheeks
“intense pulsed light”	a technology making use of intense pulses of non-coherent light distributed over a range of wavelengths to improve the appearance and texture of the skin and correct skin blemishes
“net promoter score”	a metric used to measure the willingness of a customer recommending a certain brand, and is typically interpreted as an indicator of customer satisfaction and loyalty. Net promoter score is obtained from customer surveys where participants rank their likelihood of recommending a certain brand to others from 0 to 10, and the participants are then categorized into “promoters”, “passives”, and “detractors” based on the scores. Net promoter score is subsequently calculated as percentage of promoters less percentage of detractors
“new tier-one cities”	Chengdu, Hangzhou, Chongqing, Xi’an, Suzhou, Wuhan, Nanjing, Tianjin, Zhengzhou, Changsha, Dongguan, Foshan, Ningbo, Qingdao, and Shenyang
“niacinamide”	a specific form of vitamin B, which is highly effective for skin whitening, protecting skin from environmental stresses and treating acne
“NMPA”	the National Medical Products Administration of the PRC (國家藥品監督管理局), successor to the China Food and Drug Administration or CFDA (國家食品藥品監督管理總局)
“non-invasive”	description of a procedure that does not involve entering the body through surgical incisions into the skin with an operative procedure and closure with sutures

GLOSSARY OF TECHNICAL TERMS

“non-surgical aesthetic medical services”	aesthetic medical services that aim to improve one’s physical appearance and are performed with devices that utilize various forms of energy such as laser, radiofrequency, and ultrasound (energy-based procedures); and aesthetic medical services where substances, such as botulinum toxin type A, and hyaluronic acid dermal filler are injected into the target areas (skin, subcutaneous tissues and superficial muscles) of the face or the body (injection procedures)
“physician(s)”	person(s) who has/have obtained practicing physician qualification (執業醫師資格) for their medical profession in accordance with the Law on Medical Practitioners of the PRC
“PLLA”	poly-L-lactic acid
“radiofrequency”	a technology used in a device, with the oscillation of alternating currents at a frequency of around 300 kHz to 300 GHz
“radiofrequency microneedling”	a procedure that uses a gold plated needle device which gently penetrates the skin to deliver radiofrequency deep into the dermal layers of the skin
“regenerative medicine”	a branch of medicine that develops methods to regrow, repair or replace damaged or diseased cells, organs or tissues
“Sculptra”	a poly-L-lactic acid injectable filler
“SKU(s)”	stock keeping unit(s), a distinct type of item for sale, such as a product or service, and all attributes associated with the item type that distinguish it from other item types
“sq.m.”	square meters
“subhealth assessment and intervention services”	medical services that aim to improve clients’ health conditions, by way of regulating and enhancing the functions of the organ systems of the client’s body by applying functional medicine

GLOSSARY OF TECHNICAL TERMS

“suboptimal health status”	a pre-disease condition characterized by some disturbances in psychological behaviors or physical characteristics
“surgical aesthetic medical services”	aesthetic surgeries that are performed with the intention to alter the appearance of various parts of the face or the body, such as eyelids, nose, breast and facial shape, which typically involve local or general anesthesia, as well as partial or full incisions
“Thermage”	an aesthetic energy-based procedure using a probe to transmit high-energy radiofrequency to deep layer of dermis to denature and constrict the collagen by heat energy, so as to activate the self-repairing process of human body and stimulate the regeneration of collagen with an aim to improve skin texture, shrink pores and increase skin elasticity
“tier-one cities”	Beijing, Shanghai, Guangzhou and Shenzhen
“traditional beauty services”	Non-medical beauty services that aim to maintain good facial or body conditions with the application of cosmetic products on the surface of the face or body, mainly aided with manual massage or body and facial care devices
“ultrasound”	using high intensity focused ultrasound to heat up a target tissue, intended to achieve results such as stimulating collagen production, uplifting sagging skin and tightening loose skin

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS ARE SUBJECT TO RISKS AND UNCERTAINTIES

This prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for the periods of time to which such statements relate. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing the Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our business strategies and plans to achieve these strategies;
- the actions of and developments affecting our competitors;
- our future debt levels and capital needs;
- changes to the political and regulatory environment in the industry and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- changes in competitive conditions and our ability to compete under these conditions;
- future developments, trends and conditions in the industry and markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- effects of the global financial markets and economic crisis;
- our financial conditions and performance;
- our dividend policy; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

FORWARD-LOOKING STATEMENTS

In some cases, we use the words “aim”, “anticipate”, “believe”, “can”, “continue”, “could”, “estimate”, “expect”, “going forward”, “intend”, “ought to”, “may”, “might”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and similar expressions to identify forward-looking statements. In particular, we use these forward-looking statements in the “Business” and “Financial Information” sections of this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Our Directors confirm that the forward-looking statements are made after reasonable care and due consideration. Nonetheless, due to the risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all.

Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

An investment in our Shares involves significant risks. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the “Financial Information” section, before deciding to invest in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such an event, the market price of our Shares could decline, and you may lose all or part of your investment. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-Looking Statements” in this prospectus.

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to doing business in China; (iii) risks relating to our corporate structure; and (iv) risks relating to the Global Offering. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Risks Relating To Our Services and Products

Any negative public perception of our brand or reputation will materially and adversely affect our business.

Our brand and reputation are critical to our success. We believe that our success and continued growth depends on the public perception of our brand name and our ability to protect and promote our brand name. Many factors are important to maintain and enhance our brand, including:

- our ability to effectively control the quality of the services performed by our physicians, therapists and other service personnel, and to monitor the performance of such personnel as we continue to expand;
- our ability to maintain a convenient, standardized and reliable customer experience as customer preferences evolve and as we expand our service offerings; and
- our ability to increase brand awareness among existing and potential customers through various means of marketing and promotional activities.

RISK FACTORS

In addition, allegations against us have appeared in online forums and news articles. These allegations included claims of dissatisfaction with service outcomes and inappropriate sales tactics, among others. Any negative review, comment or allegation regarding our company, stores, employees, services or products by the media, our customers, our former employees or the public in the media or on online social networks may harm our brand, public image and reputation, which in turn may result in a loss of customers, franchisees and business partners.

Our services may fail to meet our customers' expectations or deliver satisfactory results.

Our customers may have high expectations regarding the service outcomes. However, we cannot guarantee the results of our services since results vary depending on various factors, such as the medical history of our customers, their adherence to our pre-procedure and post-procedure instructions, their respective responses to procedures, unknown or undisclosed allergies and other subjective factors beyond our control. It is also an inherent risk that the results of our services may lead to undesirable or unexpected outcomes, such as complications and injuries, or otherwise fail to meet our customers' expectations. Such undesirable or unexpected outcomes may result in customer dissatisfaction, requests for refunds, or complaints, claims or legal actions against us, which may lead to negative publicity. Any negative publicity may adversely harm our brand image and reputation and cause a deterioration in the level of market recognition of and trust in our services.

The beauty and health management services provided by us are discretionary in nature and the customer demand of such services and the Group's business and financial performance is vulnerable to economic turmoil and downturn, changes in macroeconomic environment and COVID-19 pandemic.

Since the COVID-19 pandemic in 2020, many cities in China have taken various social distancing measures in reaction to region-wide COVID-19 outbreak or resurgence, such as travel restrictions, quarantines, remote working, cease of public events, and recommendations against travel for leisure, among others. People spend more time at home, and have fewer social activities due to occasional COVID-19 contamination measures. Such restrictions on social and networking activities also limit opportunities to consume our services. Traditional beauty services, aesthetic medical services and subhealth assessment and intervention services that we provide are discretionary services in nature and the customer demand of such services and the Group's business and financial performance is vulnerable to economic downturn and precautionary measures in reaction to COVID-19 pandemic in China. For instance, in the first six months of 2022, our net profit decreased to RMB19.8 million from RMB105.1 million in the same period of 2021, and net profit margin dropped from 12.6% to 2.7%, primarily as a result of the Recurrence of COVID-19, mobility restriction, and in particular the strict lockdown in Shanghai where we operated 41 direct stores. If the COVID-19 pandemic continues to impact people's work and life, our business operation and financial results may be negatively affected.

RISK FACTORS

Our operations and business plans may be adversely affected by the COVID-19 pandemics.

COVID-19 is a contagious disease caused by a novel strain of coronavirus. Since early 2020 the disease has spread worldwide, leading to an ongoing pandemic. As part of the intensified efforts to contain the spread of COVID-19, governments across the world took a number of actions, including imposing lockdown policies, quarantining and asking residents to remain at home and to avoid public gatherings. As a result, China's beauty and health management service market had been negatively impacted, which in turn materially and adversely affected our business, results of operations and financial condition. For example, some of our stores experienced temporary closures during the COVID-19 pandemic and many of our customers avoided going to our stores in order to avoid social gathering and prevent from themselves being infected. As a result, many of our services were cancelled and the overall demand for our services and products has decreased. In particular, customers are hesitant to have our services such as meridian massage and neck massage since such services need to be provided through physically touching. The revenue from our traditional beauty services decreased from RMB875.8 million in 2019 to RMB848.1 million in 2020 primarily due to the outbreak of COVID-19 pandemic.

In 2021, new COVID-19 variants such as Beta, Delta and Omicron have been identified in many countries, including China, among which, Omicron and Delta are found to be aggressive, highly transmissible. In 2022, there is a recurrence of the COVID-19 pandemic in several provinces in China. Particularly, from March 2022 to late November 2022, a total of 167 direct stores and 147 franchised stores in various cities, including but not limited to Shenzhen, Shanghai and Beijing, have experienced temporary closures, in order to actively comply with the relevant government policies in relation to the prevention and control of the COVID-19 recurrence. In addition, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022. In response to the recurrence of COVID-19, we have implemented measures, including but not limited to, conducting routine sanitization and providing preventive gears such as masks, gloves, and medicines in our stores. The continuance and recurrence of COVID-19 has already caused and may continue to cause adverse and prolonged impact on the economic, geopolitical and social conditions. Meanwhile, our newly-established stores may not be fully utilized due to the decrease in customer volume. As a result, it might take longer time for us to achieve a utilization rate as expected. Furthermore, some of our suppliers are based overseas, we may experience shortage or delay in our supplies due to COVID-19.

Our efforts in developing, launching and promoting new products or brands may not be successful.

We have consistently devoted our efforts to developing new services, products and brands, and exploring new technology in order to not only adapt to evolving consumer preferences, but also influence market trends with innovation. In light of the highly competitive and volatile environment, our future growth depends on our ability to continue to expand and diversify our service and product portfolio as well as our brand portfolio. The launch of new service or product series or brands and entry into new service

RISK FACTORS

or product categories involve inherent risks, such as those relating to evolving consumer preferences, market demand and new brand images and pricing. For example, we created a brand called “XURFACE” with three direct stores in 2018, as our attempt to target young clients for our traditional beauty services, however, we ceased such operations in early 2020. For more details, see “Business — Our Store Operation Model — Direct Store Model” in this prospectus.

Failure to successfully diversify our services, products and brands to adapt to the constantly changing consumer preferences and market trends may cause our profit margin to decrease as we will not be able to recoup the associated costs, may jeopardize our competitive advantage and market share, and result in continued reliance on our existing services, products and brands. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

We are exposed to inherent risks of medical incidents, malpractice, medical negligence, misconduct claims arising from our operations.

The safety and quality of our services are vital to the success of our business which depends significantly on the performance of our physicians, therapists and other service personnel. As a beauty and health management service provider, we strictly adhere to relevant medical standards and the safety of our customers is of utmost importance to our operations. However, we may still face the risk of exposure to malpractice, medical negligence or misconduct and claims on account of alleged deficiencies in our service. We may not be able to avoid malpractice, medical negligence or misconduct exposure, including on account of error by our personnel, machine or equipment error, or the lack of pre-operative advice or post-operative care by our customers. For instance, in June and August 2021, Shinan Aimei Medical Cosmetology Clinic of Qingdao Aimei Medical Cosmetology Co., Ltd and Shanghai Xiuke'er Outpatient Department Co., Ltd was each fined RMB1,000 by Qingdao Health Commission and Shanghai Huangpu District Health Commission, respectively. The fines were imposed as we engaged medical technician (i.e. a registered nurse) to implement treatment activity beyond their specialty, which included the provision of mesotherapy and laser treatments without the presence of a registered physician in the two instances. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, the Group was not subject to any material fines resulted from its service personnel's implementation beyond their specialty.

Our key medical devices are mainly used for our aesthetic medical services and subhealth assessment and intervention services. Our medical devices have been thoroughly evaluated and assessed by physicians, based on their clinical knowledge and experience, to ensure that they are safe and capable of producing the desired results for our clients. During the treatment procedure, the operation by a physician can also affect safety and effectiveness of such medical device, which according to Frost & Sullivan, is backed by sufficient clinical knowledge and experiences of the physician. To protect our clients and maintain our reputation, we have internal procedures in place to ensure our physicians' compliance in using our medical devices. However, despite our efforts to ensure physicians' compliance in using the medical devices, we may still be held jointly liable if our physicians misuse our medical devices causing injuries to our clients. These claims may be brought against us or any of our service personnel by way of legal

RISK FACTORS

proceedings or lodging of formal complaints with the relevant licensing regulatory bodies. In any of these cases, we may be required to pay monetary compensation or damages, or in the worst case, the qualifications or licenses of our service personnel may be suspended or revoked. In addition, we or our service personnel may be subject to other disciplinary actions. Negative publicity associated with these claims or actions may also affect our reputation and business operation.

In addition, we rely on our physicians, therapists and other service personnel in our stores to make informed decisions regarding the appropriate treatment and evaluation of our customers, particularly due to their position as the front-line staff which have high degree of interactions with our customers. However, any miscommunications or misconducts between our physicians, therapists and other service personnel on one hand, and the customers on the other hand, and/or incorrect decisions on the part of our physicians, therapists and other service personnel may result in undesirable or unexpected outcomes, including complications, unexpected side effects and injuries. Any medical incidents, malpractice, medical negligence, or misconducts occurring at our stores may result in claims or legal proceedings against us, which, regardless of merit or settlement status, could adversely affect our industry reputation, divert management resources and cause us to incur significant costs.

The beauty and health management service market may not grow as anticipated, which would materially and adversely affect our business, results of operations and financial conditions.

The future demand for our services is difficult to anticipate since it depends on various factors, many of which are beyond our control, such as technological advancement in devices and skin care products, introduction of substitute products or treatments, evolving perception by customers of beauty and health management, and the customers' willingness to pay for such services.

In addition, demand for our services and our customers' spending power are particularly sensitive to changes in general economic conditions and our customers' disposable incomes. We cannot assure you that the local economy in the places where we operate can sustain stable growth in customer spending. In addition, any economic downturn in the PRC may also cause customers to become less willing to pay for our services, which are not considered as fundamental demand.

Changes in international and regional political conditions could also adversely affect the macroeconomics, which in turn may adversely affect our business and financial performance. For instance, the China-U.S. relation has undergone a series of economic and political tensions since 2018. While China and the United States reached a phase one trade deal in January 2020, the agreed terms have not been fully implemented and more trade talks are in discussion. The future development of the China-U.S. relation remains uncertain and any adverse development may adversely impact the macroeconomics in the PRC and in turn adversely impact our business, results of operations and prospects.

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We may fail to stay attuned of the market trends or latest technological advancement in the beauty and health management service industry.

We operate in an industry with rapidly changing consumer needs and preferences which challenge us to continuously keep up with the latest developments and trends in the beauty and health management service industry and respond to the changing requests and preferences of our customers. Our customers are constantly looking for innovative and high-performance services and products at reasonable prices. In order to keep up with the latest developments and trends in the beauty and health management service industry, we need to upgrade our existing medical and beauty equipment, services and products from time to time, diversify the services and products we provided and source new services and products. If we fail to anticipate and adjust ourselves based on the market trends or fail to introduce latest technologies, we may not be able to provide high-quality services and products in satisfying customers' needs, and consequently lose our existing customers or be unable to attract new customers.

In addition, even if we are able to successfully introduce new or improved services and products, they may not achieve the desired financial return, and they may be rendered obsolete or less competitive by changing customer preferences or the introduction by our competitors of services and products with newer technologies or features.

We face certain risks associated with the use of franchise business model.

We introduced the franchised store model only for traditional beauty services as our first attempt to combine the benefits of franchise store model with our traditional strengths developed through direct store model. We cooperate with franchisees who are committed to our philosophy and motivated to grow the brand and store network with us. As of June 30, 2022, 175 stores were operated by our franchisees under franchise arrangements. For details of our franchise arrangements, see "Business — Our Network" in this prospectus. However, our franchise business models subject us to a number of risks, each of which may impact our ability to collect franchise fees from our franchisees, may harm the goodwill associated with our brands, and may adversely impact our business and results of operations.

- *Control over franchisees.* Our franchisees manage their businesses independently and are responsible for the day-to-day operation of their stores. As a result, we cannot fully control their action and our contractual rights and remedies are limited. If our franchisees do not perform their obligations pursuant to their franchise agreements with us, including but not limited to obtaining the relevant operating permits or complying with the applicable laws and regulations, such as fire safety related procedures and approvals, or if our franchisees do not successfully operate stores in a manner consistent with our required standards, or project an image inconsistent with our brands and values, our brands' image and reputation could be harmed, which in turn could hurt our business and operating results. The success of our franchised stores will also depend on the willingness and ability of our franchisees to implement major initiatives, which may include financial

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investment, and to remain aligned with us on operating, promotional and reinvestment plans, which may be capital-intensive and may only be beneficial in the long term. There is no guarantee that our franchisees will share our vision, and they may refuse to take actions that are only beneficial in the long term.

- *Revenues realized from franchised stores.* The revenues we realize from franchised stores are partly dependent on the ability of our franchisees to grow their sales. If our franchisees do not experience sales growth, our revenue and margins could be negatively affected. Also, if sales trends worsen for our franchisees, their financial results may deteriorate, which could result in, among other things, store closures or delayed or reduced payments to us.
- *Bankruptcy.* A franchisee's bankruptcy could have a substantial negative impact on our ability to collect payments due under the franchise arrangements, and may have a negative impact on our brand image.
- *Litigation.* Our franchisees are subject to a variety of litigation risks, including, but not limited to, customer claims, personal-injury claims, environmental claims, employee allegations of improper termination. As stipulated in our franchise agreement, we will not be held liable for the claims against our franchisees, for instance, in a dispute brought by a customer in our franchised store, unless the dispute was caused by the quality issues of the products provided by us. Although we are not directly liable for the costs involved in these types of litigations, each of these claims may increase the costs of our franchisees and adversely affect their profitability, and may therefore limit the funds available for them to pay franchise fees, to renovate and develop the stores they operate, or limit their ability to renew their arrangements with us. On the contrary, our franchisees or former franchisees may have disputes with us for various issues, such as breach of franchise agreement, unauthorized use of trademark. Such direct or indirect litigation risks could in turn adversely affect our business and operating results and may have negative impact on our brand image.

Newly opened and acquired stores may not achieve operating results as anticipated.

It typically takes newly opened and acquired stores a period of time to achieve a utilization rate comparable to our existing stores, due to factors such as time needed to build customer awareness and to integrate such stores' operations into our existing infrastructure. Furthermore, we may not be able to immediately utilize a new store as anticipated, due to factors such as our inability to obtain or material delay in obtaining the required approvals, permits or licenses, and any substantial increase in costs to ramp up operations and utilization. In addition, the operating results generated at the newly opened and acquired stores may not be comparable to the operating results generated at any of our existing stores. The new stores may even operate at a loss, which could materially and adversely affect our results of operations.

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We may fail to maintain effective quality assurance systems for our services.

Service quality is critical to our success. Maintaining consistent service quality depends significantly on the effectiveness of our and our franchisees' quality assurance systems, which in turn depends on a number of factors, including the design of our quality control systems and employee implementation and compliance with those quality control policies and guidelines. Due to the scale of our and our franchisees' operations, we also face the risk that certain of our and our franchisees' employees may not adhere to our mandated quality procedures and requirements. There can be no assurance that our and our franchisees' quality assurance systems will prove to be effective. Any significant failure of or deviation from these quality assurance systems could have a material adverse effect on our business, reputation, results of operations and financial condition.

Any substantial increase in rent, non-renewal of lease agreements, or unexpected early termination of lease agreements may affect our business.

Since all of our stores are currently situated at leased properties, we are particularly susceptible to fluctuations in the property rental market. As of the Latest Practicable Date, we leased 303 properties in the PRC with an aggregate GFA of approximately 84,103.85 sq.m., and as of June 30, 2022, our lease liabilities amounted to RMB513.8 million. We believe that, generally, rental costs for premises that are suitable for our business will continue to increase. Our substantial operating lease obligations expose us to potential risks, including increasing our vulnerability to adverse economic conditions, limiting our ability to obtain additional financing and reducing our cash available for other purposes.

Our lease agreements for our stores typically have a term over five years with an extension period ranging from one to three years. If a lease agreement is renewed at a rate substantially higher than the existing rate or if any other existing favorable terms granted by the lessor are not extended, we must evaluate whether renewal on such modified terms is in our business interest. If we are unable to renew our lease agreements upon their expirations, we will have to close or relocate the relevant stores. We cannot assure you that we will be able to secure comparable locations with leases based on comparable terms to relocate our business in time, or at all, which could subject us to interruption to our business, construction, renovation and other costs and risks.

Generally, lessors may not terminate our lease agreements in the absence of our breach of the lease agreements. The PRC government, however, has the statutory power to acquire any land in the PRC. In addition, during the Track Record Period, certain of our leased properties were mortgaged to independent third parties even before the execution of the lease agreements. A mortgagee can exercise the power of sale by way of judicial auction over the mortgaged property when the right is due and exercisable. As a result, we may be subject to compulsory acquisition, closure or demolition of any of the properties on which our stores are situated. Although we may receive liquidated damages or compensation if our leases are terminated unexpectedly, we may be forced to suspend operations of the relevant stores and divert management attention, time and costs to find a new site and relocate our stores.

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If we are unable to fully comply with PRC laws and regulations on medical advertisement, our results of operations could suffer significantly.

We use advertisements to promote our service, and we are obligated under PRC laws and regulations to monitor our advertising content to comply with applicable laws. According to the Administrative Measures on Medical Advertisement (醫療廣告管理辦法) and Notice of the Ministry of Health on Further Strengthening the Administration of Medical Advertisements (衛生部關於進一步加強醫療廣告管理的通知), our operations must apply for and obtain a medical advertisement examination certificate before publishing a medical advertisement. Violation of these regulations may result in penalties against stores in our network, including rectification, orders, warnings, suspension of operations, revocation of relevant permits to engage in the provision of specific medical services, and the revocation of the Medical Institution Practicing License. In addition, if the content of the published advertisement is different from what is approved and documented in the medical advertisement examination certificate, the competent authority may revoke the medical advertisement examination certificate and refuse to accept any applications for advertisement examination for a period of one year, which will consequently restrict our promotion and marketing efforts. For advertising content related to certain types of products and services, such as pharmaceuticals and medical equipment, we are required to confirm that the advertisers have completed filings with local authorities and obtained all requisite government approvals, including review of operating qualifications, proof of quality inspection of the advertised products and government pre-approval of the contents of the advertisement. For more details of the laws and regulations on medical advertising in the PRC, see “Regulatory Overview — Regulations Relating To Medical Services — Regulations on Medical Advertising in the PRC” in this prospectus.

Whilst we endeavor to comply with PRC advertising laws and regulations, we cannot guarantee that we would not inadvertently become non-compliant with relevant advertising laws and regulations. In addition, any changes in the existing laws and regulations, such as the newly released Enforcement Guidance for the Medical Cosmetology Advertising (醫療美容廣告執法指南) on November 2, 2021, or any changes of interpretation thereof, or any promulgation of new laws and regulations in the PRC in relation to medical advertising could require us to obtain additional approvals or permits for our promotions and advertisements, or incur additional compliance costs, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences. If we fail to adjust promotions, advertising and marketing strategies and policies in a timely manner in response to changes in the existing laws, regulations or rules; or if we are found to be non-compliant with any of these laws, regulations or rules, we may face penalties, which could adversely affect our business, financial condition, reputation, results of operations and prospects.

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Risks Relating To Our Customers

We may not be able to maintain and increase the sales and profitability of our existing stores.

Our ability to increase sales of existing stores depends in part on our ability to successfully implement our initiatives to increase customer traffic and spending per member. For example, for our traditional beauty services by direct stores, the client visits increased from 771,078 in 2019 to 993,235 in 2021, and average spending per active member increased from RMB10,596 in 2019 to RMB11,843 in 2021. During the six months ended June 30, 2022, our direct stores served 60,956 active members, who on average made 5.9 visits and spent approximately RMB10,736. However, there can be no assurance that we will be able to continue to achieve our targeted sales growth and profitability for our existing stores. In addition, we may continue to experience negative same-store growth rate across our developing and matured stores, CellCare stores and Neology healthcare centers. Our stores may even operate at a loss if they could not grow sufficiently at the rate we expect and incur larger amount of costs and expenses at the same time. In addition, if we open new stores in our existing geographic markets, the sales performance and customer traffic of our existing stores near such new stores may decline as a result of increased competition.

We may fail to attract new customers cost-effectively.

We constantly endeavor to grow our customer base. In order to attract new customers, we may rely on referrals by existing customers and need to incur additional expenditures or make additional investment in our marketing and advertising efforts, which may be more costly and/or less effective or successful as we anticipate. There is no assurance that we will be able to attract sufficient number of new customers to substantiate our continuous business development.

Failure to enhance our sales and marketing efficiency could harm our ability to increase the sales of our services and products and achieve broader market reception.

We rely on our brand image and reputation in marketing and selling our services. As there are an increasing number of potential customers who may seek services based on our reputation and brand in the beauty and health management service industry, we will need to constantly manage our reputation and brand image and further enhance customer education through promotions, advertisements and online marketing activities. Our ability to increase customer base and achieve broader market reception of our services and products will depend to a significant extent on our ability to enhance our sales and marketing efficiency. We expect to enhance our sales and marketing efficiency to cover broader geographical areas in the future. However, there is no guarantee that we will be successful in attracting and maintaining our customers, and our ability to control selling and marketing expenses may significantly affect our profitability. Even if we are successful in expanding our customer base, if these efforts paid to analyze their needs and market our services and products to them would divert our limited resources away from existing customers, our ability to attract and maintain our current customers would be negatively impacted, which might cause a loss of our current customer base and adversely affect our business operation and financial results.

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We are subject to customer complaints, claims and legal proceedings in the regular course of our operations.

We rely on our service personnel team at our stores to make appropriate decisions regarding the services provided to our customers. However, we cannot assure you that every team member at our stores will always act in accordance with the appropriate standard of care. Any deviation from the appropriate standard of care by our physicians, therapists and other service personnel, may result in unsatisfactory treatment outcomes, injuries or, in extreme cases, deaths. We are subject to complaints, claims or legal proceedings initiated by our customers as a result of any negative physical reaction to our services. In addition, given the nature of the beauty and health management service industry and subjectiveness of the level of satisfaction with services provided, we have been and will continue to be susceptible to other types of complaints associated with our services from time to time. These primarily include (i) dissatisfaction with our customer service; (ii) disputes over pricing; (iii) over-promising of treatment outcome; (iv) dissatisfying aesthetic effects of our services; (v) dissatisfaction with post-treatment recovery periods; and (vi) general dissatisfaction with the results of our services.

In addition, due to the fact that the volume of service and number of customers have all rapidly increased over the years as part of our growth, the absolute number of such complaints, allegations and other claims, regardless of merits, has increased and may continue to increase. Such complains, allegations and claims, if not managed properly, could have a material adverse effect on our reputation, business, results of operations, financial condition and prospects.

Risk Relating To Our Suppliers and Employees

We do not have full control over the quality of medical and beauty equipment, medical supplies, injection materials, skincare products and other consumables we use in providing our services.

We have established a comprehensive service protocol, internal control and strict quality control system. Even though we are selective in choosing our suppliers, we cannot assure you that the medical device, injectables, daily facial and body care products and other consumables we procure (including our private label offerings) from our suppliers are safe, free of defects and meeting the relevant quality standards. In the event of any quality issues, we could be subject to complaints and product liability claims by our customers. We may not be able to seek indemnification from our suppliers and if we engage in legal proceedings against our suppliers, such proceedings may be time consuming and costly regardless of the outcomes.

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We have engaged a limited number of suppliers, which may render us vulnerable to supply shortages and price fluctuations.

We engaged a limited number of suppliers for certain medical and beauty equipment, medical supplies, injection materials, and skincare products during the Track Record Period. Any interruptions or changes in the supply, or our inability to obtain substitute suppliers meeting our quality standards at acceptable prices in a timely manner may impair our ability to meet the demands of our customers. Moreover, we expect our demand for medical and beauty equipment, medical supplies, injection materials, and skincare products increase as we continuously expand our business scale, and we cannot guarantee that our current suppliers have the capacity to meet our increasing demand going forward. On the other hand, we enter into minimum purchase commitments with certain suppliers, which may affect our ability to timely adjust the amount of our purchases based on our actual business demands, and may cause us to incur unnecessary costs merely to fulfill such minimum purchase commitments.

In the event that our major suppliers terminate their business relationships with us, or fail to provide us with adequate supply to meet our needs, we may not be able to find suitable alternative suppliers within a short period of time. Moreover, prices of certain principal medical and beauty equipment, medical supplies, injection materials, and skincare products may increase significantly, in which case we may not be able to increase the prices of our services to offset the impacts. Therefore, if our suppliers increase prices of or reduce discounts and we fail to secure replacement for such products at a better price, we may experience a decline of our profits.

If our employees, customers, suppliers or other business partners engage in illegal, fraudulent, improper or unethical conduct, such as bribery and corruption, we may be subject to potential liability and negative publicity, and our reputation as well as business could be harmed.

We are exposed to the risk that our employees, customers, suppliers, or other business partners we have contracted may engage in illegal, fraudulent, improper or unethical conduct. Misconduct by these individuals and institutions could include intentional, reckless and/or negligent conduct that violates the relevant laws and regulations, including those requiring the reporting of true, complete and accurate information and data to regulatory authorities, data privacy and security, product quality, efficacy claims and manufacturing standards, and other relevant laws and regulations in China. Such misconduct could also involve fraud, corruption, bribery (such as offering or accepting kickbacks and rebates that may constitute bribery), tax evasion and other illegal practices. In addition, our business partners such as medical institutions may be subject to greater regulatory scrutiny in their operations, in particular, their compliance with applicable anti-bribery and tax laws and regulations.

In particular, sales, marketing and other business arrangements in our industry are subject to extensive laws and regulations intended to prevent fraud, bribery, misconduct, kickbacks, self-dealing and other abusive practices. In recent years, regulatory scrutiny and enforcement in sales, marketing and other business arrangements involving medical institutions, such as aesthetic medical service providers, have increased, and regulations

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in our industry or those of our business partners may further tighten in the future. We could be potentially liable for actions taken by our employees, customers, suppliers or other business partners that violate anti-bribery, anti-corruption and other related laws and regulations in China or other countries, as well as suffer from negative publicity associated with these actions, over which we may not have full control. Our employees or other third parties may fail to comply with such laws and regulations, and the relevant government authorities with discretion may interpret the laws and regulations in the way inconsistent with our understanding, both of which may expose us to potential risks and penalties. Although we had not been subject to fines or penalties for any breach of such laws and regulations in the past, we cannot assure you that there will not be any such fines or penalties imposed on us in the future.

The risk of breaches by our employees, customers, suppliers or other business partners, whether intentionally or inadvertently, could also potentially be higher in light of the recent regulatory scrutiny. We may not be able to identify and deter any misconduct by such foregoing persons, and the precautions we take to detect and prevent such misconduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could severely disrupt our business operations, or result in failure to continue the marketing and sales of our products and obtain regulatory approval for our product candidates. The government authorities may seize the products involved in any illegal or improper conduct by our employees and other third parties, and we may be subject to claims, fines or suspension of our operations. Our brands and reputation, business, results of operations and financial position could be adversely affected if we are associated with any potential liabilities as well as negative publicity as a result of illegal, fraudulent, improper or unethical conduct, or allegations of such, by our employees and other business partners.

Some of our important suppliers are based overseas and fluctuations in foreign currency exchange rates could result in additional costs to us.

We procure a substantial amount of skincare products and injection materials manufactured in Germany, Switzerland and other foreign countries from international suppliers and domestic trading companies. As a result, we are exposed to foreign currency exchange fluctuations arising in the normal course of our business operations. Our foreign exchange risk primarily arises when we purchase products from our suppliers in a certain currency and sell them to our customers in a different currency, and the exchange rate between those currencies may experience significant fluctuations. In the event that foreign currency exchange rates fluctuate significantly, we cannot assure you that we are able to pass on the cost to our customers by adjusting our service or product prices.

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Our staff maybe incentivized to adopt inappropriate and excessive sales practices in advising customers to purchase unnecessary or unsuitable services or products.

The remuneration package of our employees includes basic salary, allowance and bonus. In particular, our physicians, therapists and other service personnel may be remunerated with bonus that is assessed mainly based on their performance. Therefore, our staff may be incentivized to adopt inappropriate and excessive sales practices, which may involve advising customers to purchase unnecessary or unsuitable services or products, in order to boost their sales.

We were not involved in any litigation or material legal proceedings in relation to inappropriate or excessive sales practices during the Track Record Period and up to the Latest Practicable Date. However, any incidents of inappropriate and excessive sales practices which lead to unnecessary or unsuitable services or products sold to our customers may result in complaints, claims and legal actions to be brought by dissatisfied customers. Such dissatisfied customers may request refunds, complain on the Internet or media, or to his/her peers, or file legal claim against us, where such actions may materially and adversely affect our market reputation and consumer perception, thereby weakening their affinity to our brand, causing deterioration in the level of trust among our customers and potential customers in our services and resulting in reduced sales and potential loss of customers. In addition, unscrupulous sales practices are regulated and restricted by PRC laws and regulations, the violations of which would subject us to penalties and/or other legal consequences. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any administrative penalty involving material non-compliance in relation to unscrupulous sales practices. Any changes in the existing laws and regulations, or any changes of interpretation thereof, or any promulgation of new laws and regulations in the PRC in relation to unscrupulous sales practices could require us to incur additional compliance costs, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences.

Our success depends on our ability to retain our senior management, key personnel and to attract, retain and motivate qualified personnel.

We have been, and will continue to be, heavily dependent on the continued services of our senior management team and other key employees, some of whom have been with us since our inception. In particular, we rely on the expertise, experience and leadership of our founder and chairman of the Board, Mr. LI, who has extensive business leadership experience and industry insight. We also rely on a number of key members of our senior management team, such as our chief executive officer and vice chairman of the Board, Mr. LIAN, who has been working in China's beauty and health management service industry for nearly two decades. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of our key personnel, we may not be able to locate suitable or qualified replacements in a timely manner or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be adversely affected. In addition, if any member of our senior management team or key

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employees joins a competitor or forms a competing business, we may lose know-how, customers and key service personnel and staff. Each of our key employees including all physicians has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws.

There is no assurance that we will be able to successfully enforce the non-competition undertakings contained in the agreements we have entered into with our employee.

In the PRC, restrictive covenants are enforceable only when the contractual terms restricting a contracting party's activities during or after the termination of his/her agreement are reasonable in all circumstances to protect the legitimate business interests of the other contracting party, i.e. our Group. Despite there are non-competition undertakings contained in the employment agreements we have entered into with our physicians, there is no assurance that they will not, upon termination of their respective agreements with us, engage in business activities that compete, whether directly or indirectly, with our business for a certain period of time. In circumstances where our physicians engage in competing business activities, we cannot assure you that we will be able to successfully enforce such non-competition undertakings under the laws of the PRC. If our physicians engage in competing business activities and we are unable to enforce the relevant non-competition undertakings, our business, results of operations and financial condition may be materially and adversely affected.

Risks Relating To Extensive Government Regulations

We may not be able to obtain, maintain or renew all the permits, licenses, certificates and other regulatory filings.

We are subject to extensive government regulations for all material aspects of our operations in China, and are required to obtain and maintain various approvals, licenses and permits, and to complete various registrations or filings, to operate our business, including but not limited to business license, medical institution practicing license, environmental impact assessment filing, fire safety inspection, and permits and filings in relation to relevant constructions. For details, see "Business — Compliance, Licenses and Permits" in this prospectus. These approvals, licenses and permits are obtained upon satisfactory compliance with, among other things, the applicable laws and regulations. Complying with government regulations may require substantial expenses, and any non-compliance may expose us to liability. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time and resources to rectify the issues.

If we fail to obtain the required licenses, permits and approvals, or if the scope of our operations exceed the scope permitted under the applicable licenses, permits and approvals, we may be subject to fines, confiscation of the income derived from the related stores, the suspension of operations of the related stores, and adverse publicity arising from such non-compliance with government regulations. Further, the establishment of our stores at new locations may involve regulatory approvals and reviews by various PRC governmental authorities, and we may need to obtain permits, licenses, certificates

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and/or complete other regulatory filings, including but not limited to, relevant environmental assessment, construction permits and fire safety related filings of the new premises by relevant PRC governmental authorities. If we fail to obtain the necessary approvals, licenses and permits for new stores in time, our network expansion plan may be delayed. In addition, many of these licenses are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation, and there can be no assurance that we will be able to obtain, renew and/or convert all of the approvals, licenses and permits required for our existing business operations upon their expiration in a timely manner or at all, which may materially impact our operations.

During the Track Record Period, we were fined by relevant government authorities for certain isolated non-compliance incidents relating to our failure to complete certain fire safety procedures in time, which were fully settled and were not material in nature. During the Track Record Period and up to the Latest Practicable Date, we experienced certain non-compliance incidents, including failure to obtain the required Fire Safety Inspection Approvals for certain of our direct stores. For details, see “Business — Compliance, Licenses and Permits — Fire Safety” in this prospectus. As of the Latest Practicable Date, we had fully rectified the non-compliance incidents in relation to failure in obtaining the required Fire Safety Inspection Approvals for all our direct stores and franchised stores in operation as of the Latest Practicable Date. In addition, we have adopted a series of enhanced internal control measures aiming to prevent similar non-compliances from recurring. We expect to incur additional costs as a result of the measures we take to rectify our historical non-compliances and to prevent similar non-compliances from recurring, however, we cannot assure you that we will be able to fully rectify all non-compliance incidents in a timely manner, or that we will not be subject to any future regulatory reviews and inspections where other non-compliance incidents might be identified, which might materially and adversely affect our business, financial condition, results of operations and prospects.

We may be subject to any litigation, legal or contractual disputes, government investigations or administrative proceedings.

We may from time to time become subject to various litigation, legal or contractual disputes, investigations or administrative proceedings arising in the ordinary course of our business, including but not limited to various disputes with or claims from our suppliers, customers, franchisees, business partners and other third parties that we engage for our business operations. On-going or threatened litigation, legal or contractual disputes, investigations or administrative proceedings may divert our management’s attention and consume their time and our other resources. Furthermore, any litigation, legal or contractual disputes, investigations or administrative proceedings which are initially not of material importance may escalate and become important to us, due to a variety of factors, such as the subject matter of the disputes, the likelihood of loss, the monetary amount at stake and the parties involved. For example, we were in trademark and franchise agreement disputes with a former franchisee and its founder in Inner Mongolia, in which cases the former franchisee and its founder alleged that we infringed on their exclusive right to use our Company’s trademark of “美麗田園”, with a dispute amount of approximately RMB3.1 million; while we alleged that the former franchisee and

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its founder breached the franchise agreement, with a dispute amount of approximately RMB1.2 million. The court rejected the former franchisee and its founder's claims in whole with respect to the trademark use right dispute, and rejected a portion of our monetary compensation claims in the franchise agreement dispute. Both we and the former franchisee appealed to the High People's Court of Huhehaote, Inner Mongolia Autonomous Region. As of the Latest Practicable Date, the trademark dispute was still in the process of reviewing the case, and the franchise agreement dispute was concluded with the court partially upholding our appeal. In 2019, a customer who suffered vision impairment due to central retinal artery occlusion around two months after receiving an eyelid alteration surgery in one of our direct stores sued us for damages. Although there was no evidence showing that any misconduct during the surgery directly resulted in the vision impairment of the customer, the court ordered our direct store to pay damages of RMB109,133.6 for not informing the customer of this specific risk prior to the surgery representing approximately 30% of the total damages suffered by the customer. For more information about the legal proceedings, please refer to "Business — Legal Proceedings" in this prospectus. If any verdict or award is rendered against us or if we settle with any third parties, we could be required to pay significant monetary damages, assume other liabilities and even to suspend or terminate the related business projects. In addition, negative publicity arising from litigation, legal or contractual disputes, investigations or administrative proceedings may damage our reputation and adversely affect the image of our brands and products, which further materially and adversely affect our business.

Ongoing regulatory reforms in the beauty and health management service industry are unpredictable in the PRC, and we and our products may be subject to new or more stringent regulations, which may result in significant additional expenses and we may be subject to penalties.

We conduct our business in a heavily regulated industry and therefore incur on-going compliance costs and face potential penalties for non-compliance. The laws and regulations relate mainly to the requirements for medical institutions and equipment, and the licenses, qualifications and number of service personnel. For details, see "Regulatory Overview" in this prospectus. Accordingly, our stores are subject to periodic license renewal requirements and inspections by various government agencies and departments. If we fail to obtain or renew any necessary licenses, permits, approvals and certificates, or if our service personnel become unlicensed at any time during their practices at our stores, or if our physician fail to obtain or maintain a valid license, or if we are found to be non-compliant with any of these laws, regulations or rules, we may face penalties, suspension of operations or even revocation of operating licenses, permits, approvals or certificates, depending on the nature of the findings.

The PRC's regulatory regime governing the beauty and health management service industry may undergo reform. It is uncertain what impact the new regulations and policies would have on our competitiveness, operations and corporate structure. Our business operations and future expansion are largely driven by the PRC's policies, which may change significantly and are beyond our control. There can be no assurance that the PRC government will not impose additional or stricter laws or regulations on beauty and health management services, or strengthen and tighten supervision and management of private medical institutions, or implement stricter or more comprehensive regulations on

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the distribution of skincare and pharmaceutical products, medical devices and medical consumables. Any changes in laws and regulations, or any change of interpretation thereof, could require us to obtain additional licenses, permits, approvals or certificates, or result in the invalidation of our currently owned licenses, permits, approvals or certificates, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences. There is no assurance that we will be able to adapt to such changes in a timely manner. Even if we are able to be compliant with such new laws, rules, regulations or industry standards and the regular audit of the same, it may significantly increase our operating costs, which may in turn lower our profit margins.

In addition, our products that are approved by the regulators are, and will be subject to, ongoing regulatory requirements with respect to manufacturing, labeling, packaging, storage, advertising, promotion, sampling, record-keeping, post-market studies, submission of safety, efficacy, and other post-market information as well as other requirements of regulatory authorities in China. If we and our suppliers are unable to comply with the aforesaid regulatory requirements, we and our suppliers may be subject to regulatory investigation, administrative proceedings and potential penalties. In particular, the aesthetic medical industry in China has recently been subject to increased regulatory scrutiny, including laws and regulations related to false advertising, false efficacy claims and bribery (including any form of kickbacks and rebates that may constitute bribery), as well as off-label uses. The continued or heightened regulatory scrutiny on such skincare products may impact our future sales, increase the costs of our business and expose us to potential liabilities as well as negative publicity.

We could be exposed to risks related to our management of customers' data.

During our ordinary course of business, we collect certain data of our customers, primarily including name, gender, contact information, basic health information, consultation and treatment records, and other service-related records. We collect such information primarily for communications, treatment planning and delivery of our services and products properly. We are required by applicable laws to properly keep and maintain customer records, and to protect the customers' information from being leaked. We are also subject to, among others, regulations on personal information protection in the PRC which limits the use of personal information of our customers collected by us for such purposes for which they were collected. We have adopted various measures to ensure legal compliance. For details, see "Business — Data Privacy and Protection" in this prospectus. However, these measures may not always be effective in protecting our customers' data and there is no guarantee that we can completely prevent the information from leakage and constantly maintain compliance under evolving and complex regulatory environment, for example, we may need to enhance and prioritize our internal control measures, security management and information technology systems, such as multi-layer protection scheme. Our information technology systems could be breached through hacking activities. Personal information we maintain could be leaked due to any theft or misuse of personal information caused by misconduct or negligence. In addition, although we do not make the customers' data available to the public, we use such data on an aggregated basis after redacting personally identifiable information for better understanding of the personalized client's needs and preferences.

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In addition, the laws and regulations regarding cybersecurity, data privacy and protection in China are generally complex and evolving, with uncertainty as to the interpretation and application thereof. For example, on December 28, 2021, the Cyberspace Administration of China, or the CAC, and other twelve PRC regulatory authorities jointly revised and promulgated the Cybersecurity Review Measures (《網絡安全審查辦法》), which stipulates the applicable scope of the cybersecurity review and came into effect on February 15, 2022. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators that intend to purchase internet products and services and anticipate that its procurement of internet products and services affect or may affect national security after the network products and services being put into use and network platform operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review. The Cybersecurity Review Measures further stipulates that network platform operators with personal information data of more than one million users that seek for listing in a foreign country are obliged to apply for a cybersecurity review by the Cybersecurity Review Office. In addition, if regulatory authorities determine that the internet products and services as well as data processing activities affect or may affect national security as stipulated in the Measures for Cybersecurity Review, the Cybersecurity Review Office can initiate cybersecurity reviews.

On November 14, 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (“**Draft Data Security Regulations**”), which, among others, stipulate that if a data processor has processed personal information of over one million persons and intends to be listed abroad, if the public listing of a data processor in Hong Kong affects or may affect national security, or a data processor participates in data processing activities that affect or may affect national security, it must be subject to the cybersecurity review. Although the number of individuals of which we process personal information are far below one million and we believe that our collection and handling of the personal information do not constitute “data processing activities” or any other activities that may affect national security under the Draft Data Security Regulations, the application scope of the Draft Data Security Regulations remains unclear, and the PRC government authorities may have discretion in the interpretation and enforcement of the laws and regulations. If a final version of the Draft Data Security Regulations is adopted, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. Any actual or alleged failure to comply with the evolving data privacy and protection laws and regulations could damage our reputation and negatively affect our business operation and financial position.

On 7 July 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) (the “**Measures on Security Assessment of Cross-border Data Transfer**”), which became effective on 1 September 2022. These measures provide that a data processor providing data out of the territory of mainland China in certain circumstances shall report a security assessment for its outbound data transfer to the CAC. Further details on the Measures on Security Assessment of Cross-border Data Transfer are set out in “Regulatory Overview — Laws and Regulations Related to Cybersecurity and Personal Information or Data Protection”.

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As of the Latest Practicable Date, we have not been required by any government authorities to report such security assessment. Since the interpretation and implementation of these measures are still subject to elaboration by relevant government authorities, there remains uncertainty as to how the new regulation will be applied and implemented.

Our leased property interests may be defective and our right to lease or use the properties may be challenged.

We lease 303 pieces of properties for our office and other uses. As of the Latest Practicable Date, the relevant lessors of 48 of our leased properties had not provided relevant title ownership certificates or other similar proofs of such leased properties to us. Therefore, we cannot assure you that such lessors are entitled to lease the relevant properties to us. If the lessors are not entitled to lease the properties to us and the owners of such properties decline to ratify the lease agreements between us and the respective lessors, we may not be able to enforce our rights to lease such properties under the respective lease agreements against the owners.

In addition, the actual usage of six leased properties was inconsistent with the usage set out in their title evidence or relevant authorization documents. Such six leased properties are used for the operation of our stores. We face uncertainties of our leases if third party claims or challenges the lease. If the lessors are found out to not have the requisite rights to lease these properties, our relevant lease agreements with them may be deemed invalid, and as a result we may be required to vacate these leased properties.

As of the Latest Practicable Date, we are not aware of any claim or challenge brought by any third parties concerning the use of our leased properties without obtaining proper ownership proof. If our lease agreements are claimed as null and void by third parties who are the real owners of such leased properties, we could be required to vacate the properties, in which event we could only initiate the claim against the lessors under relevant lease agreements for indemnities for their breach of the relevant leasing agreements. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our operations in a timely manner, our operations may be interrupted. For more details, see “Business — Properties — Leased Properties” in this prospectus.

Some of the lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law.

Pursuant to applicable PRC laws and regulations, property lease agreements must be filed with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, with respect to 257 leased properties, the relevant lease agreements we entered into have not been registered with the relevant PRC governmental authorities as required by the PRC law due to the difficulties of procuring the relevant lessor’s cooperation to register such leases.

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Although the failure to do so does not in itself invalidate the leases, we may be ordered by the PRC government authorities to rectify such noncompliance and, if such noncompliance were not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for each of our lease agreements that have not been registered with the relevant PRC governmental authorities. As of the Latest Practicable Date, we are not aware of any regulatory or governmental actions, claims or investigations being contemplated or any challenges by third parties to our use of our leased properties, the lease agreements of which have not been registered with the government authorities. However, we cannot assure you that the government authorities will not impose fines on us due to our failure to register any of our lease agreements. For more details, see “Business — Properties — Leased Properties” in this prospectus.

We may fail to comply with environmental, health and safety laws and regulations.

We are subject to numerous environmental, health and safety laws and regulations. Our operations produce hazardous waste, including medical waste, waste water and pollutants. We generally contract with third parties for the disposal of these materials and wastes. However, we cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources and incur significant costs associated with civil or criminal fines and penalties.

Risks Relating To Our Intellectual Property Rights

We may be unable to adequately protect our intellectual property rights.

We believe that intellectual property rights are critical to our continued success. We have registered or applied for registration of certain trademarks, patents, and domain names in the PRC and Hong Kong relating to the names and logos of our stores. For details, see “Business — Intellectual Property” and “B. Further Information About the Business of the Company — 2. Our Material Intellectual Property Rights” in Appendix V to this prospectus. We endeavor to protect our intellectual property rights but there is no assurance that the measures we have taken to protect our intellectual property rights, including registration of our trademarks, can adequately prevent unauthorized use by third parties or that we will not face any infringement of our intellectual property rights in the future. To counter infringement or unauthorized use, litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of our own intellectual property rights or the proprietary rights of others. This can be expensive and time consuming. Any claims that we assert against perceived infringers could also provoke these parties to assert counterclaims against us alleging that we infringe their intellectual property rights. Many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce and/or defend their intellectual property rights than we can. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

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We may be sued for infringing intellectual property rights of third parties.

We may be exposed to intellectual property rights infringement or misappropriation claims by third parties during our operations and have from time to time been involved in disputes with third parties over the use of their works or portraits. We may also be subject to litigation involving claims of trademark infringement or violation of other intellectual property rights of third parties. Defense against any potential claims would be both costly and time-consuming, and could divert the efforts and resources of our management and other personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to liabilities to third parties, require us to seek licenses from third parties, pay ongoing royalties, or subject us to injunctions prohibiting the provision and marketing of the relevant brand or services. To the extent that licenses are not available to us on commercially reasonable terms or at all, we may be required to expend considerable time and resources sourcing alternative technologies or rebranding our services, if any, or we may be forced to delay or suspend the relevant services or the promotion of the relevant brand. We may incur expenses and require the attention of management in defending against these third-party infringement claims, regardless of their merit. Protracted litigation could also result in our customers or potential customers deferring, reducing or canceling their purchases of our services due to deteriorated market perception. In addition, we could face disruptions to our business operations as well as damage to our reputation as a result of such claims, and our business, financial condition and results of operations could be adversely affected.

Risks Relating To Our General Operations

Our insurance coverage may be insufficient to cover all risks involved in our business operations.

We have obtained insurance to cover certain potential risks and liabilities. However, we may not be able to acquire any insurance for certain types of risks such as business liability or service disruption insurance for all of our operations in the PRC, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. For example, we do not maintain key-man life insurance; we do not maintain any insurance for our Contractual Arrangement, either. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster, or disputes or liabilities arising from our Contractual Arrangement could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

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In addition, we do not maintain a medical liability insurance, and according to our PRC Legal Advisers, there is no statutory requirement for our stores to maintain such insurance coverage. We are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by our customers against us. Although we believe our comprehensive quality control system can effectively control the safety and quality of the services provided by our service personnel, there is no assurance that we are able to maintain the occurrence of medical disputes at a manageable level. If we are found to be liable to any material medical incidents and there is no insurance to cover our losses arising therefrom, our business, financial condition and results of operations could be materially and adversely affected.

Any disruption, malfunction or breakdown of our business management system and network security may interrupt our business operations.

Our business operations depend on the satisfactory performance, stability and reliability of our business management system and related software programs, which are critical to our storage of customer records and appointments, management of supplies as well as computation of operational and sales data. However, our business management system may experience disruption, malfunction, breakdown or other performance problems due to reasons such as (i) the licensor terminates the license of the business management system to us; (ii) any unauthorized use of software and allegations regarding infringements of intellectual property rights during our business operation; (iii) increasing pressure on our servers and network capacities as a result of growing customer base and expanding operations; (iv) undetected programming errors, bugs, flaws, corrupted data or other defects; (v) hacking or other attacks on our network infrastructure and system programs; and (vi) floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses or similar events. Any disruption, malfunction, breakdown or other performance problems of our business management system may significantly disrupt our business operations and reduce our work efficiency, which may have a negative impact on the quality of our services.

There is no assurance that our business management system will not experience disruption, malfunction, breakdown or other performance problems in the future. There is also no assurance that we will be able to, through the help of our licensor, effectively upgrade our existing systems or develop new systems to support our expanding business operations in a timely manner. Any failure to do so may materially and adversely affect our business, results of operations, financial condition and prospects.

We may be unable to identify or execute acquisition opportunities as planned.

We may not be able to identify suitable acquisition targets, negotiate commercially acceptable terms for acquisitions, or successfully integrate any acquired assets or businesses in the future. Even if we are able to identify suitable targets, such acquisitions can be difficult, time consuming and costly to execute and integrate, and we may not be able to secure necessary financing for the acquisitions. Unsuccessful acquisition may have an adverse effect on our business and financial condition. Businesses that we acquire may have unknown or contingent liabilities, including liabilities for failure to comply with the relevant laws, regulations and rules. We may also suffer reputational and financial harm

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for actual or alleged inferior service or harm that occurred at the acquired stores prior to our acquisition, and need to respond to claims initially as unsatisfied customers will likely pursue their claims against us. In addition, future acquisitions and subsequent integration of newly acquired assets and businesses into our own would require attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect. Going forward, from time to time, we may evaluate various acquisition opportunities, and any future acquisition through equity, acquisition through asset or business, or investment in an associate may entail numerous risks. These risks include increased cash requirements, additional indebtedness, contingent or unforeseen liabilities.

We may fail to expand into new geographic areas in a timely and cost-effective manner.

We have significantly expanded our business over the past few years. Our organization may become larger and more complex with our intended plans to expand into new geographic areas, through a combination of acquisitions and organic growth. The execution of our expansion plans is expected to require management attention and efforts and incur additional expenditures. Our ability to successfully expand into new markets depends on many factors including, among others, our ability to:

- identify suitable geographic markets for the type of services we offer;
- identify ideal locations of the stores premise and negotiate acceptable terms for leasing or acquiring the properties, including desirable tenant allowances;
- identify local consumer preferences;
- address local market competition;
- avoid potential cannibalization;
- hire, train and retain a growing workforce;
- successfully integrate new stores into our existing control structure and operations, including our information technology systems;
- avoid competition of our new direct stores with our franchised stores in the same areas as we expand into new geographic areas; and
- secure financing or maintain sufficient capital to invest in new stores or making acquisitions of well-established beauty and health management service institution

In addition, to manage our growth and expansion, and to attain and maintain profitability, we will continue to place demands on our management, physicians and our administrative, operational and financial personnel and infrastructure. We cannot assure you that we will be able to implement our expansion plans or manage any future growth

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effectively and efficiently, and any failure to do so may adversely affect our ability to capitalize on new business opportunities, which in turn may have an adverse effect on our business and financial results.

Our business performance may be negatively affected by unfavorable public perception of the overall beauty and health management service industry.

Some of our existing and potential customers are cautious about the risks inherent in beauty and health management services, and are particularly sensitive to any negative comments, reports or allegations against any beauty and health management service providers. From time to time, there are negative news and media reports on the health risks relating to beauty and health management services as well as accidents relating to beauty and health management services.

Any allegations, complaints, or negative news or media reports on any accidents, instances of medical malpractice or professional negligence, unfair selling practices, ineffectiveness of services, or health risks or poor service standard relating to beauty and health management service industry or beauty and health management services may, regardless of merit, lead to a deterioration in market confidence in beauty and health management services and a reduction in the overall demand for such services. While such allegations, complaints or negative news or media reports may be unrelated to us, the demand for our beauty and health management services may decline and the entire beauty and health management service industry and its participants, including us, could consequently be exposed to reputational harm, which may materially and adversely affect our business, results of operations, financial condition and prospects.

Our business may be affected by natural disasters, epidemics and other acts of God.

Our business may be affected by natural disasters, epidemics and other acts of God which are beyond our control. The occurrence of earthquakes, sandstorms, snowstorms, fire or drought, or the outbreak of epidemics such as Middle East Respiratory Syndrome (MERS), Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, human swine flu (also known as Influenza A (H1N1)), H7N9, Zika Virus Disease or COVID-19 and its variants may have a material adverse impact on the economic and social conditions in the affected regions. For details of risks relating to COVID-19, see “— Risks Relating To Our Services and Products — Our operations and business plans may be adversely affected by the COVID-19 pandemics” in this section. In addition, any natural disasters, epidemics and other outbreaks that are beyond our control may be expected to directly impact our operations, including straining our facilities and employees, exposing employees to personal risks, disrupting regular business operations, imposing additional health or safety measures upon our stores, exposing our stores to potential liability for any actions taken or not taken.

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Risks Relating To Our Financial Position

The preferential tax treatment and financial subsidies that we enjoyed may be changed or terminated.

During the Track Record Period, we received government grants of RMB10.3 million, RMB9.8 million, RMB12.6 million and RMB13.7 million, in 2019, 2020, 2021, and the six months ended June 30, 2022, respectively. In addition, during the Track Record Period, certain subsidiary was qualified high and new technology enterprise and was entitled to a reduced corporate income tax rate of 15%. For more details of the preferential tax treatments, see Note 12 to Appendix I to this prospectus. In addition, we may enjoy other preferential tax treatments from time to time in relation to the beauty and health management service industry. Our eligibility to receive the preferential tax treatment requires that we continue to qualify for them. The incentives are provided to us at the discretion of the central government or relevant local government authorities, which could determine at any time to eliminate or reduce the preferential tax treatment, generally with prospective effect. Since our receipt of the preferential tax treatment is subject to periodic time lags and changing government practice, as long as we continue to receive these preferential tax treatment, our net income in a particular period may be higher or lower relative to other periods depending on the potential changes in these preferential tax treatment in addition to any business or operational factors that we may otherwise experience. The discontinuation of preferential tax treatment currently available to us could have an adverse effect on our financial condition, results of operations, cash flows and prospects.

Our revenue has historically been dependent on, and will remain dependent on, our operations in certain important cities.

During the Track Record Period, we derived most of our revenue from stores in Shanghai, Beijing, Wuhan and Chongqing. Going forward, we expect that a large part of our revenue will remain dependent on our operations in these cities in the PRC. We are therefore highly sensitive to the social, regulatory, economic, environmental and competitive conditions as well as the beauty and health management service industry landscape in these cities. In the event that the average spending power of the population in these regions decreases or the economic growth in these regions slow down, demand for our services and products may substantially decrease and our results of operation and profitability may be adversely affected.

We had net current liability position.

We recorded net current liabilities of RMB670.6 million, RMB601.6 million, RMB544.3 million and RMB638.2 million as of December 31, 2019, 2020, 2021, and June 30, 2022, respectively. Our net current liability position during the Track Record Period were primarily due to the substantial amounts in contract liabilities. For details of analysis of our net current liability position, see “Financial Information — Liquidity and Capital Resources — Net Current Assets/Liabilities” in this prospectus.

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The substantial amount of contract liabilities represents the payments made in advance by our customers, and such payments do not require our incremental spending to fulfill our service obligations to the customers, other than maintaining our facilities and service crew. This business model, which is reasonable and commonly seen in the industry, inevitably creates net current liability position. However, there can be no assurance that we will not experience liquidity problems in the future. Our future liquidity, the payment of trade and other payables, our capital expenditure plans and the repayment of our outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash generated from operations and adequate external financing. We cannot assure you that our net current liability will not continue or recur in the future, which may limit our working capital for the purpose of operations or capital for our expansion plans and adversely affect our business, financial condition and results of operations.

We may face risk regarding the obsolescence for our inventories.

Our inventories primarily consist of medical and beauty consumables, beauty equipment, other supplies used in the provision of our services, as well as our stock of skincare and beauty products, which amounted to RMB117.4 million as of June 30, 2022. During the Track Record Period, we have not identified material inventory items requiring impairment provisioning, as we had maintained an effective inventory management system. We believe that maintaining appropriate levels of inventories helps us meet market demands in a timely manner. We generally purchase supplies based on our estimated demand, and we monitor the expiration dates closely through our logbook and physical inspection to ensure that no expired items will be used or sold. However, as our business expands, our inventory level may increase and our inventory obsolescence risk may also increase accordingly. Furthermore, any unexpected material fluctuations in the supplies or changes in customers' preferences may lead to decreased demand and overstocking of supplies and increase the risk of obsolescence.

We face risk of impairment loss relating to the goodwill recognized in connection with acquisitions.

As of December 31, 2019, 2020, 2021, and June 30, 2022, we had goodwill of RMB152.3 million, RMB176.1 million, RMB194.3 million and RMB191.5 million, respectively. Our goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. In addition, we make certain assumptions when assessing the value of our goodwill, including assumptions on impairment testing. There are inherent uncertainties relating to these assumptions. We cannot assure you that our assumptions will prove to be correct. Any such change in our assumptions may require us to re-value our goodwill, which may in turn result in impairment losses. Significant impairment losses on goodwill may have a material adverse effect on our financial condition and results of operations and may in turn limit our ability to obtain financing in the future. For details of impairment assessment methods for our goodwill, please see Note 2.10 and Note 21 to the Accountant's Report in Appendix I to this prospectus.

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We may not be able to fulfill our obligations in respect of contract liabilities.

As of December 31, 2019, 2020, 2021, and June 30, 2022, our contract liabilities amounted to RMB914.7 million, RMB1,155.1 million, RMB1,347.7 million and RMB1,387.5 million, respectively. Our recognition of contract liabilities as revenue is subject to future performance obligations and may not be representative of revenues for future periods. Our contract liabilities primarily represented the advance payment made by customers for services and products to be provided during a period of time in the future. The service packages generally involve multiple sessions spanning over three months to two years. After we provide relevant services or products, contract liabilities will be recognized as revenue. For more details of our contract liabilities, see “Financial Information — Discussion of Certain Selected Items From the Consolidated Statements of Financial Position — Contract Liabilities” in this prospectus.

Due to the absence of expected timeframe for subsequent utilization of the service plans and the potential future changes in session schedules, contract liabilities at any particular date may not be representative of actual revenue for any current or future period. In addition, we cannot guarantee that all the sessions purchased by customers can be delivered in a timely manner. Any failure to fulfil the obligations in respect of contract liabilities may have an adverse impact on our results of operations, liquidity and financial position.

We recorded a decreasing trend on overall gross profit margin in 2020 and 2022.

During the Track Record Period, we primarily generated operating profit from providing traditional beauty services, aesthetic medical services and subhealth assessment and intervention services. Our total overall gross profit margin is largely affected by the COVID-19 related impact, and to some extent, is also affected by our revenue mix due to the differences among the gross profit margins of our service offerings. During the Track Record Period, we experienced variation in our overall gross profit margin at 50.4%, 46.6%, 46.8% and 42.8% in 2019, 2020, 2021, and the six months ended June 30, 2022, respectively. The gross profit and gross profit margin of our services may vary based on their cost structure, business scale, and development stage. In general, aesthetic medical services enjoy a better gross profit margin than traditional beauty services by direct stores, which in turn have an impact on our overall gross profit margin over year or period. Aesthetic medical services are in general a more lucrative service category than traditional beauty services, which can be reflected in the significantly higher price charged per each service session. One potential reason behind the relatively higher margin is the trust from our members and their willingness to purchase service packages with high value in pursuit of high quality services. Additionally, the different cost structure also contributes to the difference in gross profit margin. The cost of sales of traditional beauty services is largely composed of fixed staff costs and depreciation and amortization charges, and the service nature of traditional beauty services, which involves a relatively longer service period with the reliance on manual labor, also requires higher staff costs. By contrast, one of the largest cost of sales components of aesthetic medical services was product and consumable costs, which are only incurred when delivered to customers thus the costs are proportionate to client visit volume instead of fixed.

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In particular, we recorded an decreasing trend on overall gross profit margin in 2020 primarily due to the outbreak of COVID-19 pandemic. For example, two of our major business offerings, traditional beauty services and aesthetic medical services, experienced decreased gross profit margin in 2020 as fewer customers obtained our services during the relevant period due to restrictions on social distancing and personal interaction brought by COVID-19 outbreak. In 2021, we gradually recovered from the negative impact of COVID-19 pandemic and achieved better operational efficiency resulting from economies of scale in relevant costs as well as depreciation and amortization charges in relation to rents. As a result, our overall gross profit margin slightly increased in 2021. For the six months ended June 30, 2022, our overall gross profit margin decreased primarily due to the Recurrence in early 2022.

In addition, our overall gross profit margin was also affected by the development stage of a particular service. For subhealth assessment and intervention service, our gross profit and gross profit margin fluctuated over year or period. The gross profit margin of subhealth assessment and intervention services decreased from 2019 to 2020 because we opened two additional Neology (研源) healthcare centers in the second half of 2019. Since it generally took time for newly-opened stores to ramp-up its performance, we incurred more costs as compared to revenue at their initial stage of operations, which negatively affected the gross profit margin of our subhealth assessment and intervention business. Our gross profit from subhealth assessment and intervention services decreased from 2020 to 2021, primarily due to the decrease in revenue resulted from less clients served. Since 2021, we also started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period. Our gross profit and gross profit margin from subhealth assessment and intervention services increased from the six months ended June 30, 2021 to the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. As such, our overall gross profit margin was affected by a variety of factors. Any unfavorable changes on our overall gross profit margin could have an adverse effect on our net profit, financial condition and results of operations. We cannot assure you that a decreasing trend on overall gross profit margin will not continue or recur in the future, which may limit our working capital for the purpose of operations.

We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all.

We may require additional capital beyond those generated by the Global Offering from time to time to grow our business, to better serve our customers, develop and enhance our products, and improve our operating infrastructure. Accordingly, we may need to sell additional equity or debt securities or obtain a credit facility. Future issuances of equity or equity-linked securities could significantly dilute our existing shareholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. The incurrence of debt financing would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

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We are exposed to credit risk in relation to trade receivables and notes receivables and prepayments, deposits and other receivables.

During the Track Record Period, our trade receivables and notes receivables primarily consisted of outstanding amounts from our franchised stores resulted from inter-stores settlements between direct stores and franchised stores, and payments made by customers but not yet received from shopping malls or third-party payment platforms. As of December 31, 2019, 2020, 2021 and June 30, 2022, our trade receivables and notes receivables amounted to RMB30.3 million, RMB36.7 million, RMB31.3 million, and RMB34.4 million, respectively. During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of (i) rental deposits for our leased properties; (ii) prepayments for procurement of inventories, including prepayments for medical and beauty consumables as well as other supplies in relation to our operation; and (iii) other current assets, primarily represented the deductible taxes and listing expenses. As of December 31, 2019, 2020, 2021 and June 30, 2022, our prepayments, deposits and other receivables amounted to RMB127.0 million, RMB129.6 million, RMB142.3 million and RMB235.4 million, respectively. In particular, we experienced significant increase in prepayments, deposits and other receivables as of June 30, 2022, primarily due to (i) an increase in amounts due from related parties resulted from reorganization, cooperation fee in relation to subhealth assessment and intervention services, and rental incomes. In particular, as of June 30, 2022, there was a significant increase in amounts due from related parties resulted from reorganization as the settlement of certain capital injection into the listing Group took longer period of time to complete the transaction due to the Recurrence in 2022; (ii) an increase in other receivables primarily due to receivables due from certain employees for employee incentive platform and receivables for registered capital from certain shareholder; (iii) an increase in other current assets due to input VAT to be deducted and income tax withheld; (iv) an increase in deposits for property leases due to the store expansion; and (v) an increase in prepaid listing expenses. For details, see “Financial Information — Discussion of Certain Selected Items From the Consolidated Statements of Financial Position — Prepayments, Deposits and Other Receivables” in this prospectus.

In the event that the creditworthiness of our franchised stores deteriorates or that a significant number of our franchised stores fail to settle their trade receivables and notes receivables in full for any reason, we may incur impairment losses and our results of operations and financial condition could be materially and adversely affected. In addition, we may not be able to collect trade receivables, deposits or other receivables due to a variety of factors that are beyond our control, such as a recurrence of a global financial crisis or other adverse macroeconomic trends that may cause operational, financial and liquidity difficulties for counterparties of such trade receivables, deposits or other receivables. If the level of our impaired accounts receivables increases in the future, our business growth prospects may be materially and adversely affected.

RISK FACTORS

Impairment losses relating to intangible assets could materially affect our profits.

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had intangible assets of RMB78.3 million, RMB90.3 million, RMB90.3 million and RMB85.7 million, respectively. Our intangible assets mainly consisted of software, trademarks, and customer relationships during the Track Record Period. As of June 30, 2022, the net book value of our software, trademarks, customer relationships and others was RMB20.7 million, RMB23.0 million, RMB42.0 million and RMB27.0 thousand, respectively.

There are inherent uncertainties in the estimates, judgments and assumptions used in assessing recoverability of intangible assets. Economic, legal, regulatory, competitive, reputational, contractual, and other factors could result in future declines in the operating results of our business or market values that do not support the carrying value of intangible assets. Any reduction in or impairment of the value of intangible assets will result in a charge against our profits, which could have a material adverse impact on our results of operations and financial condition.

We are uncertain about the recoverability of our deferred tax assets, which may affect our financial condition in the future.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our deferred tax assets amounted to RMB26.3 million, RMB36.0 million, RMB35.0 million and RMB47.3 million, respectively. Deferred tax assets arise from the deductible temporary differences between the carrying amounts of assets and liabilities from financial reporting purposes and their tax base, as well as unused tax losses and unused tax credits. Deferred tax assets are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. This requires significant judgment on the tax treatment of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee that the recoverability of our deferred tax assets, and to what extent they may affect our financial condition in the future.

We face exposure to fair value change of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and valuation uncertainty due to the use of unobservable inputs.

As of December 31, 2019, 2020, 2021, and June 30, 2022, we had financial assets at fair value through profit or loss of RMB358.9 million, RMB658.4 million, RMB926.3 million, and RMB709.7 million, and financial assets at fair value through other comprehensive income of RMB0.2 million, RMB0.2 million, RMB0.1 million and nil thousand, in each case respectively. We face exposure to fair value change of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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We cannot assure you that we can recognize comparable fair value gains in the future and we may on the contrary recognize fair value losses, which would affect our result of operations for future periods. In addition, the valuation of fair value change of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is subject to uncertainties in estimations. Such estimated changes in fair values involve the exercise of professional judgment and the use of certain bases, assumptions and unobservable inputs, which, by their nature, are subjective and uncertain. As such, the valuation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income has been, and will continue to be, subject to uncertainties in estimations, which may not reflect the actual fair value of these financial assets and result in significant fluctuations in profit or loss from year to year.

Share-based compensation expenses may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

We adopted a number of employee restricted share plans to provide long-term incentives for our employees and directors for their outstanding services provided to us to incentivize and reward the eligible persons who have contributed to our success. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred share-based payment expenses of RMB1.6 million, RMB7.0 million, RMB6.3 million and RMB6.4 million, respectively. To further incentivize our directors, senior management and key employees to contribute to us, we may grant additional share-based compensation in the future. Issuance of additional Shares with respect to such share-based payment may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

RISKS RELATING TO DOING BUSINESS IN CHINA

Economic, political and social conditions and government policies in the PRC could affect our business and prospects.

All of our revenue is derived from our businesses in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, foreign exchange controls and resource allocation. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for about four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in

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business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the beauty and health management service industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

Uncertainties with respect to the PRC legal system could have a material adverse effect on our business and operations.

The overall effect of legislation over the past decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China's legal system is still evolving, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of many laws, regulations and rules involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available to you and us.

As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

The legal protections available to you under the PRC legal system may be limited.

Our subsidiaries and operations are mainly located in the PRC and are subject to PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be adduced for reference but have limited precedential value. Since the late 1970s, the PRC National People's Congress and government have promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholders' rights, foreign investment, corporate organization and governance, commerce, taxation, and trade, with a view towards developing a comprehensive system of commercial law. However, China's legal system is still evolving, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China, or may be unclear or inconsistent. In particular, since the beauty and health management service industry is in its early developmental stage in the PRC, the laws and regulations relating to this industry are unspecific and may be incomprehensive. As a result, the legal protections available to you under the PRC legal system may be limited.

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We are subject to applicable governmental registrations and approvals if we use the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises, capital contributions by an offshore holding company to its wholly-owned subsidiary in China shall obtain approvals from or report investment information to the Ministry of Commerce of the PRC (the “MOFCOM”) or its local counterpart and register with the State Administration for Market Regulation (the “SAMR”) or its local counterpart to make capital contributions to the foreign-invested enterprises.

In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with the State Administration of Foreign Exchange of the PRC (the “SAFE”) or its local branches, and our PRC subsidiaries may not procure loans exceeding the statutory limits and is required to be registered with the SAFE or its local branches or file with the SAFE through its online service platform. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of the Global Offering to fund our operations in China may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

We may be subject to penalties if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange rules.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“SAFE Circular No. 37”), which was promulgated by the SAFE and became effective on July 4, 2014, requires a PRC resident (including PRC individuals and PRC corporate entities) (“PRC Resident”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Offshore SPV”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division.

Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, limit the ability of the Offshore SPV’s PRC subsidiary to distribute dividends to its overseas parent, or restrict our overseas or cross-border investment activities. It is unclear how SAFE Circular No. 37 and any future regulation concerning offshore or cross-border transactions will be interpreted, amended or implemented by the relevant government authorities.

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Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to penalties.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas private companies as directors, senior management members or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our PRC resident directors, senior management members and other employees who have been granted share-based awards may apply for the foreign exchange registration before our Company becomes an overseas listed company.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (“SAFE Circular No. 7”). Under SAFE Circular No. 7 and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. Our PRC employees who have been granted share-based awards after the Public Offering are subject to SAFE Circular No. 7 and other relevant rules and regulations. Failure of our PRC share-based award holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions. Such failure may also limit our ability to adopt additional incentive plans, and inject additional capital into our PRC subsidiaries, and our PRC subsidiaries’ ability to distribute dividends to us.

In addition, the State Administration of Taxation of the PRC (the “SAT”) has issued certain circulars concerning employee share options and restricted shares. Under such circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have the obligations to make required filings for employee share options or restricted shares with relevant tax authorities, and to withhold individual income taxes for those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes accordingly, we may face sanctions imposed by tax authorities or other competent PRC government authorities.

Government control of currency conversion and future fluctuations in Renminbi exchange rates may limit our ability to utilize our revenue effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and the remittance of currency out of China. We receive substantially all of our revenues in RMB and the majority of our cash inflows and outflows are denominated in RMB. Under our current corporate structure, our cash needs are dependent on dividend payments from our subsidiaries in China and payments received from Shanghai Liernuo under Contractual Arrangements. We may convert a portion of our RMB into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our ordinary shares, if any. Shortages in the availability of foreign

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currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries is allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

The value of the Renminbi against other currencies fluctuates, and is subject to changes resulting from government policies and depends to a large extent on domestic and international economic and political developments. We cannot assure you that the Renminbi will not experience significant appreciation or depreciation against the Hong Kong dollar or other foreign currencies in the future.

PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors.

The Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”), adopted by six PRC regulatory agencies in 2006 and amended in 2009, among other things, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the foreign investor should submit a declaration to the MOFCOM in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise and involves any of the following circumstances: (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. We do not expect that any of our further merger and acquisition will trigger the requirement to submit such declaration to MOFCOM under each of the above-mentioned circumstances or any review by other PRC government authorities.

Moreover, the Anti-Monopoly Law (中華人民共和國反壟斷法) promulgated by the Standing Committee of the National People’s Congress which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be notified and cleared by National Anti-monopoly Bureau before they can be completed.

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We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be required to obtain prior approval or subject to filings or other requirements from the CSRC or other PRC regulatory authorities for the listing and trading of our Shares on the Stock Exchange.

The M&A Rules purport to require that an offshore special vehicle, or a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the China Securities Regulatory Commission (the “CSRC”) prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. However, the interpretation and application of these regulations remain unclear and substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles. Our PRC Legal Advisers are of the opinion that, based on its understanding of the current PRC laws and regulations, the prior CSRC approval for the Global Offering under the M&A Rules is not required. However, uncertainties still exist as to how the M&A Rules and other PRC laws, regulations and government policies will be interpreted and implemented or whether the relevant authorities would promulgate further requirements.

In addition, on December 24, 2021, the CSRC promulgated the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行證券和上市備案管理辦法(徵求意見稿)) (collectively, the “Draft Regulations”), which require certain companies to fulfill a filing procedure in respect of its offering and listing on the stock markets overseas if such companies satisfy the criteria as set forth in the Draft Regulations. Since the Draft Regulations were released only for public comments at current stage, the final version is subject to change with substantial uncertainty and when it will come into force is still unclear. The Draft Regulations do not include detailed requirements relating to the form and substance of the documents to be filed, and the CSRC may subsequently formulate and polish guidelines in this regard. For more details, see “Regulatory Overview — Other Regulations Relating To Doing Business in China — Regulations Relating to Overseas Securities Offering and Listing by Domestic Companies” in this prospectus.

If CSRC approval, filing or other procedures is required, it is uncertain whether we could obtain the approval, or how long it would take to obtain such approval, complete the filing or other procedures. Even if the approval is obtained or filing completed, we are not sure whether CSRC would rescind it. Any delay or failure to obtain CSRC approval, to complete the filing or other procedures for the Global Offering, or rescission of CSRC approval or filing (if obtained), would subject us to sanctions imposed by the CSRC and other competent authorities. Any uncertainty or negative publicity regarding such approval, filing or other procedural requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our Shares.

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You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Substantially all of our assets and all of our Directors are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons in the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions.

On July 14, 2006, Hong Kong and mainland China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “**Arrangement**”), pursuant to which a party with an enforceable final court judgment rendered by any designated PRC court or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant PRC court or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute did not agree to enter into a choice of court agreement in writing.

On January 18, 2019, the Supreme People’s Court of the PRC and Hong Kong entered into an agreement regarding the scope of judgments which may be enforced between China and Hong Kong (關於內地與香港特別行政區法院相互認可和執行民商案件判決的安排) (the “**New Arrangement**”). The New Arrangement seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in a wider range of civil and commercial matters between mainland China and Hong Kong, based on criteria other than a written bilateral choice of court agreement. However, as of the Latest Practicable Date, the New Arrangement has not become effective and no specific date has been determined as its effective date. The Arrangement continues to apply and, as such, it may be difficult or impossible for investors to enforce a Hong Kong court judgment against our assets or our Directors or senior management in China.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的通告) (the “**Bulletin 7**”), an “indirect transfer” of PRC taxable assets, including a transfer of equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax.

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In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be reported on with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements. Late payment of applicable tax will subject the transferor to default interest. Gains derived from the sale of shares by investors through a public stock exchange will not be subject to PRC enterprise income tax pursuant to Bulletin 7 where such shares were acquired in a transaction through a public stock exchange.

There are uncertainties as to the application of Bulletin 7. Bulletin 7 may be determined by the tax authorities to be applicable to sale of the shares of our offshore subsidiaries or investments where PRC taxable assets are involved. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved. Our Company may be subject to filing obligations or taxes if our Company is the transferor in such transactions, and may be subject to withholding obligations if our Company is the transferee in such transactions, under Bulletin 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist with the filing under Bulletin 7.

We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our global income could be subject to PRC enterprise income tax.

Under the Enterprise Income Tax Law and its implementing rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a PRC resident enterprise. The implementing rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies on April 22, 2009 and most recently amended on December 29, 2017 (“Circular 82”), which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, the criteria set forth in the circular may reflect the SAT general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises.

The tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body”. If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to the enterprise income tax on our global income at the rate of 25% and we will be required to comply with PRC enterprise income tax reporting obligations.

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The political relationships between China and other countries may affect our business operations.

During the Track Record Period, we purchased consumables and medical and beauty equipment from certain overseas suppliers, in particular Germany. Our business is therefore subject to constantly changing international economic, regulatory, social and political conditions, and local conditions in those foreign countries and regions. Tensions and political concerns between China and the relevant foreign countries or regions may adversely affect our business, financial condition, results of operations, cash flows and prospects. In the event that China and/or the Germany impose import tariffs, trade restrictions or other trade barriers affecting the importation of consumables or medical and beauty equipment, we may not be able to obtain a steady supply at competitive prices, and our business and operations may be materially and adversely affected.

You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.

Under the current tax law in China, any dividends paid by us to non-PRC enterprise shareholders may be subject to PRC withholding tax at a rate of 10% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders if such dividends are deemed to be from PRC sources. In addition, gains realized on the sale or other disposition of our Shares may be subject to PRC tax at a rate of 10% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders if such gains are deemed to be from PRC sources. Any PRC tax liability may be reduced under applicable tax treaties. However, it is unclear whether non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise.

Any limitation on the ability of our PRC subsidiaries to pay dividends or other distributions on equity to us could have a material and adverse effect on our ability to conduct our business.

We are a holding company lawfully registered under the laws of Cayman Islands, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. Under current PRC regulations, our PRC subsidiaries could pay dividends to us only out of their accumulated after-tax profits upon satisfaction of relevant statutory conditions and procedures (if applicable). In addition, each of our PRC subsidiaries is required to set aside at least 10% of its accumulated profit each year, after making up previous years' accumulated losses, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. Additionally, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends or make other distributions to us.

Any restriction on currency exchange may limit the ability of our PRC subsidiaries to use their Renminbi revenues to pay dividends to us. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries' dividends and other distributions may be subject to tightened scrutiny in the future.

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Furthermore, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless reduced based on treaties or arrangements between the PRC government and governments of other countries or regions where the non-PRC resident enterprises are tax resident.

RISKS RELATING TO OUR CORPORATE STRUCTURE

If the PRC government deems our Contractual Arrangements does not comply with PRC regulatory restrictions on foreign investment in the relevant industries, we could be subject to penalties or be forced to relinquish our interests in those operations.

Foreign ownership of medical institutions, is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own 100% of the equity interests in medical institutions in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (外商投資准入特別管理措施(負面清單)(2021年版)) (the “**Negative List**”) issued on December 27, 2021 and effective on January 1, 2022, by the National Development and Reform Commission (the “**NDRC**”) and MOFCOM, and other applicable laws and regulations. For more details, see “Regulatory Overview — Other Regulations Relating To Doing Business in China — Laws and Regulations Related to Foreign Investment in the PRC” in this prospectus.

Neither we nor Shanghai Beauty Farm is currently eligible to apply for the required licenses for providing certain medical services that foreign-owned companies are restricted from conducting in China. To comply with relevant foreign investment restrictions in the PRC, instead of holding 100% equity interest directly, we control up to 30% of the equity interests in 20 Restricted Medical Institutions through a series of contractual arrangements (“**Contractual Arrangements**”) we have entered into with Shanghai Liernuo, its shareholder, and the Restricted Medical Institutions, which enable us to (i) exercise effective control over Shanghai Liernuo and Restricted Medical Institutions, (ii) receive all or substantially all of the economic benefits and bear the obligation to absorb all or substantially all of the losses of Shanghai Liernuo and Restricted Medical Institutions, and (iii) have an exclusive option to purchase all or part of the equity interests in Shanghai Liernuo and Restricted Medical Institutions, as well as all or part of assets of Shanghai Liernuo and Restricted Medical Institutions, when and to the extent permitted by PRC laws. The Contractual Arrangements gives us effective control over Shanghai Liernuo and Restricted Medical Institutions and enables us to obtain substantially all of the economic benefits arising from Shanghai Liernuo and Restricted Medical Institutions as well as to consolidate their financial results in our results of operations. For details of the description of our Contractual Arrangements, see “Contractual Arrangements” in this prospectus.

In the opinion of our PRC Legal Advisers, (i) the ownership structure of Shanghai Beauty Farm and Shanghai Liernuo does not result in violation of the mandatory requirements of applicable PRC laws and regulations currently in effect; and (ii) the Contractual Arrangements among Shanghai Beauty Farm, Shanghai Liernuo, Mr. Li, being the registered shareholder of Shanghai Liernuo governed by PRC law, and Restricted Medical Institutions is valid and binding, does not result in violation of the mandatory requirements of PRC laws or regulations currently in effect, does not constitute a breach of

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relevant laws and regulations and would not be deemed invalid or ineffective under the relevant PRC laws and regulations. However, we have been advised by our PRC Legal Advisers that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules, and there can be no assurance that the PRC regulatory authorities will take a view that is consistent with the opinion of our PRC Legal Advisers. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or, if adopted, what they would provide, otherwise our Contractual Arrangements accordingly may subject to adjustment and amendment.

In particular, there are uncertainties as to how the current Foreign Investment Law and those PRC laws and regulations and policies would be further interpreted and implemented, if it would represent a major change to the laws and regulations and policies relating to the VIE structures. For more details, see “— Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law” and “— Risks Relating To Doing Business in China — PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors” in this section. If the ownership structure, Contractual Arrangements and businesses of Shanghai Beauty Farm, Shanghai Liernuo, or Restricted Medical Institutions are found to be in violation of any existing or future PRC laws or regulations, or Shanghai Beauty Farm, Shanghai Liernuo or any of the Restricted Medical Institutions fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures.

If any of the governmental actions results in our inability to direct the activities of Shanghai Liernuo that most significantly impact its economic performance, and/or our failure to receive the economic benefits from Shanghai Liernuo, we may not be able to consolidate that entity in our consolidated financial statements.

Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law.

On March 15, 2019, the National People’s Congress of the PRC approved the Foreign Investment Law (中華人民共和國外商投資法), which took effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law, and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. Along with the Foreign Investment Law, the Implementing Regulation of Foreign Investment Law (中華人民共和國外商投資法實施條例) promulgated by the State Council and the Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of the Foreign Investment Law (最高人民法院關於適用《中華人民共和國外商投資法》若干問題的解釋) promulgated by the Supreme People’s Court became effective on January 1, 2020.

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Since the Foreign Investment Law and its current implementation and interpretation rules are relatively new, uncertainties still exist in relation to their further interpretation and implementation. The variable interest entity structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. According to the Foreign Investment Law, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (“**Foreign Investors**”), including the following: (i) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (ii) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (iii) Foreign Investors investing in new projects in China alone or collectively with other investors; and (iv) Foreign Investors investing through other ways prescribed by laws, regulations or guidelines of the State Council. The Foreign Investment Law and its corresponding implementation rules and judiciary interpretation do not explicitly classify whether variable interest entities that are controlled through contractual arrangement are or would be deemed as foreign-invested enterprises if they are ultimately “controlled” by foreign investors.

However, it has a catch-all provision under the definition of “foreign investment” that includes investments made by foreign investors in China through other means as provided by laws, administrative regulations or the provisions of State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangement as a form of foreign investment. There can be no assurance that our control over Shanghai Liernuo through our Contractual Arrangements will not be deemed as a foreign investment in the future.

Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and business operations.

Shanghai Liernuo or its shareholders may fail to perform their obligations under our Contractual Arrangements.

We have relied and expect to continue to rely on Contractual Arrangements with Shanghai Liernuo, Mr. Li and Restricted Medical Institutions to conduct a portion of our operations in China. For details of the description of our Contractual Arrangements, see “Contractual Arrangements” in this prospectus. If Shanghai Liernuo, Mr. Li or Restricted Medical Institutions breach or fail to perform their obligations under the Contractual Arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangement. Moreover, Mr. Li, as the shareholder of Shanghai Liernuo, may have potential conflicts of interest with us. He may cause Shanghai Liernuo to breach, or refuse to renew, the existing Contractual Arrangements we have with him and Shanghai Liernuo, which would have a material and adverse effect on our ability to effectively control Shanghai Liernuo and receive economic benefits from it. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor.

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Currently, all the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. As a result, uncertainties in the PRC legal system could limit our ability to address such potential conflict of interests and enforce our Contractual Arrangements.

We rely on Contractual Arrangements to exercise control over Shanghai Liernuo and Restricted Medical Institutions, which may not be as effective as direct ownership in providing operational control.

Our ability to control Shanghai Liernuo and Restricted Medical Institutions depends on Contractual Arrangements, including the power of attorney, pursuant to which Mr. Li irrevocably appoints Shanghai Beauty Farm, as his attorney-in-fact to exercise his rights in Shanghai Liernuo, including, without limitation, the power to vote on his behalf on all matters of Shanghai Liernuo requiring shareholder approval. For details of the description of our Contractual Arrangements, see “Contractual Arrangements” in this prospectus. We believe the rights granted under the power of attorney are legally enforceable but may not be as effective as direct equity ownership. If we had direct ownership of Shanghai Liernuo, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Shanghai Liernuo, which, in turn, could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the Contractual Arrangements, we would rely on legal remedies under PRC law for breach of contract in the event that Shanghai Liernuo and Mr. Li did not perform their obligations under the contracts. These legal remedies may not be as effective as direct ownership in providing us with control over our variable interest entity.

Contractual Arrangements we have entered into may be subject to scrutiny by the PRC tax authorities.

We have entered into the Contractual Arrangements amongst Shanghai Beauty Farm, Shanghai Liernuo, Mr. Li, and Restricted Medical Institutions, respectively, under which we are able to exercise effective control over Shanghai Liernuo and Restricted Medical Institutions and all economic benefits arising from their businesses are transferred to Shanghai Beauty Farm to the extent permitted under PRC laws by means of services fees payable by Shanghai Liernuo to Shanghai Beauty Farm. For details of the description of our Contractual Arrangements, see “Contractual Arrangements” in this prospectus.

Pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties, including our Contractual Arrangements, may be subject to audit or challenge by the PRC tax authorities. The PRC tax authorities may require us to adjust the taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by increasing the tax liabilities without reducing the tax expenses of our PRC subsidiaries, subjecting us to late payment fees and other penalties for under-payment of taxes, and resulting in our PRC subsidiaries’ loss of its preferential tax treatment. Our results of operations may be adversely affected if our tax liabilities increase or if we are subject to late payment fees or other penalties.

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Our exercise of the option to acquire the interest in Shanghai Liernuo or any Restricted Medical Institutions may be subject to certain limitations.

We may incur substantial cost on our part to exercise the option to acquire Mr. Li's interest in Shanghai Liernuo or Shanghai Liernuo's interest in Restricted Medical Institutions. Pursuant to the Exclusive Purchase Option Agreements, Shanghai Beauty Farm or its designated purchaser has the exclusive right to purchase all or part of the interest in Shanghai Liernuo and Restricted Medical Institutions at the lowest price permitted under the PRC laws and regulations at any time. For more details, see "Contractual Arrangements" in this prospectus. In the event that Shanghai Beauty Farm or its designated purchaser acquires such aforementioned interest and the relevant PRC authorities determine that the purchase price is below market value, Shanghai Beauty Farm or its designated purchaser may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

Shanghai Liernuo and Restricted Medical Institutions may go bankrupt or become subject to a dissolution or liquidation proceeding.

As part of our Contractual Arrangements, Restricted Medical Institutions of Shanghai Liernuo hold certain assets and licenses that are material to the operation of our business. If either Shanghai Liernuo or any of Restricted Medical Institutions goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the Contractual Arrangements, Shanghai Liernuo and Restricted Medical Institutions may not, in any manner, sell, transfer, mortgage or otherwise dispose of their assets or legal or beneficial interests in the business without our prior consent. If Shanghai Liernuo or any of Restricted Medical Institutions undergoes a voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business and compromising our qualification for certain licenses or permits indispensable to us, which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.

Prior to the Global Offering, there was no public market for our Shares. We cannot assure you that a public market for our Shares with adequate liquidity will develop and be sustained following the completion of Global Offering. In addition, the Offer Price of our Shares may not be indicative of the market price of our Shares following the completion of the Global Offering. If an active public market for our Shares does not develop following the completion of the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

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You will incur immediate and significant dilution and raising additional capital may cause further dilution or restrict our operation.

The Offer Price of the Offer Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible asset value. If we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a shareholder. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, limitations on our ability to acquire or license intellectual property rights or declaring dividends, or other operating restrictions.

We are a Cayman Islands exempted company and, because judicial precedent regarding the rights of shareholders is more limited under the laws of the Cayman Islands than other jurisdictions, you may have difficulties in protecting your shareholder rights.

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Companies Act and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in the jurisdictions where minority Shareholders may be located. For details, see “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law” in this prospectus. As a result of all of the above, minority Shareholders may enjoy different remedies when compared to the laws of the jurisdiction such shareholders are located in.

Our Controlling Shareholders have substantial control over our Company and their interests may not align with the interests of the other Shareholders.

Prior to and immediately following the completion of the Global Offering, our Controlling Shareholders will retain substantial control over our Company. Subject to our Articles of Association and the Company Law of the PRC (中華人民共和國公司法) (the “**PRC Company Law**”), the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free (other than on any matters that they are required to abstain from voting on) to exercise their votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.

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There will be a time gap before trading of our Shares commences, and the price of our Shares when trading begins could be lower than the Offer Price in this prospectus.

The Offer Price is determined at HK\$19.32, and trading of our Shares on the Hong Kong Stock Exchange will only commence when they are delivered, which is expected to be on January 16, 2023. As a result, investors may not be able to sell or otherwise deal in the Shares before the commencement of trading. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

We cannot assure you that we will declare and distribute any dividends in the future.

There can be no assurance that we will declare and pay dividends because the declaration, payment and amount of dividends are subject to the discretion of our Directors, depending on, among other considerations, our operations, earnings, cash flows and financial position, operating and capital expenditure requirements, our strategic plans and prospects for business development, our constitutional documents and applicable law. For more details of our dividend policy, see “Financial Information — Dividends” in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “aim”, “anticipate”, “believe”, “continue”, “could”, “expect”, “estimate”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “propose”, “seek”, “should”, “will”, “would” or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. Our Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. For details, see “Forward-Looking Statements” in this prospectus.

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Certain information in this prospectus relating to the PRC economy and the beauty and health management service industry may not be fully reliable.

Certain information and statistics set out in this prospectus were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the Global Offering. However, the information from official government sources has not been independently verified by us, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy.

You should read the entire prospectus carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

You should rely solely upon the information contained in this prospectus, the Global Offering and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Global Offering.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought and has been granted the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Our management, business operations and assets are primarily located outside Hong Kong. The principal management headquarters of our Group are primarily based in the PRC. Our Company considers that our Group's management is best able to attend to its functions by being based in the PRC. Our executive Directors are not or will not be ordinarily resident in Hong Kong after the Listing of our Company. Our Directors consider that relocation of our executive Directors to Hong Kong will be burdensome and costly for our Company, and it may not be in the best interests of our Company and our Shareholders as a whole to appoint additional executive Directors who are ordinarily resident in Hong Kong. As such, we do not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, provided that our Company implements the following arrangements to maintain effective communication between the Stock Exchange and us:

- (1) pursuant to Rule 3.05 of the Listing Rules, our Company has appointed and will continue to maintain two authorized representatives, namely, Mr. LI Yang (李陽), our executive Director, and Ms. KWOK Siu Ying Sarah (郭兆瑩) (“**Ms. Kwok**”), one of our joint company secretary, to be the principal communication channel at all times between the Stock Exchange and the Company. Each of our authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email;
- (2) as and when the Stock Exchange wishes to contact our Directors on any matters, each of our authorized representatives has the means to contact all of our Directors (including the independent non-executive Directors) promptly at all times;
- (3) each of our Directors not ordinarily residing in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (4) we have appointed Haitong International Capital Limited as our compliance adviser (the “**Compliance Adviser**”), pursuant to Rule 3A.19 of the Listing Rules, which will have access at all times to our authorized representatives, Directors and senior management, and will act as an additional channel of communication between the Stock Exchange and us for the period commencing from the Listing Date to the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The Compliance Adviser will maintain constant contact with the authorized representatives, Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary. Our authorized representatives, Directors and other officers of our Company will provide promptly such information and assistance as the Compliance Adviser may reasonably require in connection with the performance of the Compliance Adviser’s duties as set forth in Chapter 3A of the Listing Rules;
- (5) we have provided the Stock Exchange with the contact details of each Director (including their respective mobile phone number, office phone number and e-mail address, if any), and in the event that any Director expects to travel or otherwise be out of the office, he/she will provide the phone number of the place of his/her accommodation to the authorized representatives; and
- (6) we will also retain legal advisers to advise on on-going compliance requirements as well as other issues arising under the Listing Rules and other applicable laws and regulations of Hong Kong after Listing.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, an issuer must appoint a company secretary who satisfies the requirements under Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, we must appoint an individual as the company secretary of our Company who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 3.28 of the Listing Rules provides that the Stock Exchange considers that the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Chartered Governance Institute;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); or
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Note 2 to Rule 3.28 of the Listing Rules provides that in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the Company and other listed companies and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement of taking not less than fifteen hours of relevant professional training in each financial year under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company considers that while it is important for the company secretary to be familiar with the relevant securities regulation in Hong Kong, he/she also needs to have experience relevant to our Company’s operations, nexus to the Board and close working relationship with the management of our Company in order to perform the function of a company secretary and to take the necessary actions in the most effective and efficient manner. It is for the benefit of our Company to appoint a person who has been a member of the senior management for a period of time and is familiar with our Company’s business and affairs as company secretary.

We have appointed Ms. ZHOU Min (周敏) (“**Ms. Zhou**”) and Ms. Kwok as the joint company secretaries of our Company. Ms. Kwok is an associate member of The Hong Kong Chartered Governance Institute and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules. Ms. Zhou, however, does not possess the qualifications set out in Rule 3.28 of the Listing Rules. We believe that Ms. Zhou, by virtue of her knowledge and experience in corporate administrative matters and familiarity with the Group’s business, is capable of discharging her functions as a joint company secretary. We therefore believe that it would be the best interests of our Company and of the corporate governance of our Group to appoint Ms. Zhou as a joint company secretary. For the biographical information of Ms. Zhou and Ms. Kwok, see “Directors and Senior Management” in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have therefore applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules on the conditions that: (i) Ms. Kwok is appointed as a joint company secretary to assist Ms. Zhou in discharging her functions as our joint company secretary and in gaining the relevant experience under Rule 3.28 of the Listing Rules; the waiver will be revoked immediately if Ms. Kwok, during the three-year period, ceases to provide assistance to Ms. Zhou as our joint company secretary; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by our Company. We expect that Ms. Zhou will acquire the qualifications or relevant experience required under Rule 3.28 of the Listing Rules prior to the end of the three-year period after the Listing. We will liaise with the Stock Exchange before the end of the three-year period to enable it to assess whether Ms. Zhou, having had the benefit of Ms. Kwok's assistance for three years, will have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which will constitute continuing connected transactions for our Company under the Listing Rules after the Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, waivers from strict compliance (i) with the announcement requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transactions as disclosed in the paragraphs headed "Connected Transactions — Continuing Connected Transactions subject to the Reporting, Annual Review, and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" and "Connected Transactions — Non-exempt Continuing Connected Transactions — Contractual Arrangements", and the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements as disclosed in the paragraph headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Contractual Arrangements", pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules. Please refer to the section headed "Connected Transactions" in this prospectus for further information.

WAIVER IN RELATION TO ACQUISITION AFTER THE TRACK RECORD PERIOD

Rules 4.04(2) and 4.04(4) of the Listing Rules require that the new applicant includes in its accountants' report the results and balance sheet of any business or subsidiary acquired, agreed or proposed to be acquired, since the date to which its latest audited accounts have been made up, in respect of each of the three financial years immediately preceding the issue of the listing document.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Pursuant to note (4) of Rule 4.04(4) of the Listing Rules, the Stock Exchange may consider an application for a waiver of Rules 4.04(2) and 4.04(4) of the Listing Rules taking into account the following factors:

- (a) that all the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) are less than 5% by reference to the most recent audited financial year of the new applicant's trading record period;
- (b) if the acquisition will be financed by the proceeds raised from a public offer, the new applicant has obtained a certificate of exemption from the SFC in respect of the relevant requirements under paragraphs 32 and 33 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and
- (c) (i) where a new applicant's principal activities involve the acquisition of equity securities (the Stock Exchange may require further information where securities acquired are unlisted), the new applicant is not able to exercise any control, and does not have any significant influence over the underlying company or business to which Rules 4.04(2) and 4.04(4) of the Listing Rules relate, and has disclosed in its listing document the reasons for the acquisition and a confirmation that the counterparties and their respective ultimate beneficial owners are independent of the new applicant and its connected persons. In this regard, "control" means the ability to exercise or control the exercise of 30% (or any amount specified in the Hong Kong Code on Takeovers and Mergers as the level for triggering a mandatory general offer) or more of the voting power at general meeting, or being in a position to control the composition of a majority of the board of directors of the underlying company or business; or (ii) with respect to an acquisition of a business (including acquisition of an associated company and any equity interest in a company other than in the circumstances covered under sub-paragraph (a) above) or a subsidiary by a new applicant, the historical financial information of such business or subsidiary is unavailable, and it would be unduly burdensome for the new applicant to obtain or prepare such financial information; and the new applicant has disclosed in its listing document information required for the announcement for a discloseable transaction under Rules 14.58 and 14.60 of the Listing Rules on each acquisition. In this regard, "unduly burdensome" will be assessed based on each new applicant's specific facts and circumstances (e.g. why the financial information of the acquisition target is not available and whether the new applicant or its controlling shareholder has sufficient control or influence over the seller to gain access to the acquisition target's books and records for the purpose of complying with the disclosure requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules).

Background of the Targets Acquisition

In July 2022, Chongqing Beauty Farm Beauty Development Co., Ltd. (重慶美麗田園美容發展有限公司), an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement in acquisition of the business operated by two beauty stores

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

operated by Chongqing Weiwei Beauty Co., Ltd. (重慶薇薇美容有限公司) and three affiliated beauty stores located in Chongqing (together, the “**Targets**”) from LUO Wei (羅維) and LUO Meishu (羅美姝), being shareholders and operators of the Targets businesses and each being an Independent Third Party (the “**Targets Acquisition**”). The Targets Acquisitions were made in order to expand the Group’s network of members and employees within the Chongqing area by leveraging on the Targets’ long track record of over a decade.

The acquisition agreement provided that the Group shall acquire the Target’s business (including certain of its employees and existing members networks of the Targets (including any unused prepaid packages from such members)) with assistance from the Targets and the sellers for a total consideration of RMB3.97 million. The Targets Acquisition was completed in July 2022, and the consideration paid for the Targets Acquisition was determined through arms’ length negotiation between the parties based on the value of the Targets taking into account their existing customer network and the outstanding unused prepaid packages. The consideration has been satisfied in cash with the Group’s internal resources (the Group has retained RMB0.6 million from the total consideration in security of continuing assistance from the sellers and the Group expects to settle the amount in cash with the Group’s internal resources in accordance with the terms of the acquisition agreement).

Based on the unaudited management accounts of the Targets, its total assets amounted to approximately RMB2.73 million as of December 31, 2021 and its net profit before tax was RMB0.58 million and RMB0.40 million for the years ended December 31, 2020 and December 31, 2021, respectively. Its net profit after tax was RMB0.46 million and RMB0.32 million for the years ended December 31, 2020 and December 31, 2021, respectively.

Our Directors considered that the Targets Acquisition is on normal commercial terms, fair and reasonable and in the interest of our Company and the Shareholders as a whole. Our Directors considered that the Targets Acquisition will enable the Group to expand more rapidly in the Chongqing region by leveraging on customer networks and experienced staff developed and maintained by the Targets.

Conditions to the waiver granted by the Stock Exchange

We have applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules in respect of the Targets Acquisition on the following grounds:

(a) Ordinary and usual course of business and independent third parties collaboration

As explained above, the Targets are stores providing traditional beauty services and are closely related to the existing business of our Company. As a result, we are of the view that the Group’s acquisition is within the ordinary and usual course of business of our Company. In addition, to the best of our knowledge, the Targets and their ultimate beneficial owners are Independent Third Parties.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

(b) Immateriality

Under Rule 14.04(9) of the Listing Rules, all the applicable percentage ratios in relation to the acquisition of the Targets are below 5% by reference to the most recent audited financial year of the Track Record Period. We consider the acquisition of the Targets to be immaterial in the context of our Company operations as a whole and therefore a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules will not affect potential investors' assessment of our business and future prospects when considering an investment in our Company.

(c) Impracticality

The Targets Acquisition was only completed in the third quarter of 2022 and it will require considerable time and resources for our Company and the Reporting Accountants to familiarize with the accounting policies of the Targets in order to collect the necessary audit evidence and prepare audited financial information for the Targets in accordance with the Group's accounting policies and reporting standards. Accordingly, having considered the immateriality of the Targets as well as the additional time and resources required, we are of the view that it would be unduly burdensome for our Company to audit the historical financial information of the business underlying the Targets in conformity with our accounting policies within the short timeframe between the completion of the Targets Acquisition and the Listing.

(d) Alternative disclosure

With a view of allowing potential investors to understand the Targets Acquisition, we have set out in this section alternative information in relation to the Targets Acquisition which is comparable to the information that is required for a discloseable transaction under Chapter 14 of the Listing Rules, including, among other things, (i) description of the principal business activities of the Targets; (ii) a confirmation that the vendors of the Targets are Independent Third Parties, (iii) the consideration for the Targets Acquisition and how it was satisfied, (iv) basis upon which the consideration for the Targets Acquisition was determined, (v) the book value of the asset which is the subject of the Targets Acquisition, (vi) the net profit/loss (both before and after taxation) attributable to the asset which is the subject of the Targets Acquisition for the two financial years immediately preceding the transactions and (vii) the reasons for entering into the Targets Acquisition and the benefits which are expected to accrue to our Company as a result of the Targets Acquisition.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors (including any proposed director who is named as such in this prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to the Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering of initially 4,054,000 Offer Shares and the International Offering of initially 36,482,500 Offer Shares (comprising 20,341,500 New Shares and 16,141,000 Sale Shares, subject to, in each case, reallocation on the basis referred to under the section headed "Structure of the Global Offering" in this prospectus and, in case of the International Offering, to any exercise of the Over-allotment Option).

The listing of our Shares on the Stock Exchange is sponsored by the Joint Sponsors and the Global Offering is managed by the Overall Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around Friday, January 6, 2023. Further information regarding the Underwriters and the Underwriting Agreements are set out in the section headed "Underwriting" in this prospectus.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the **GREEN** Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the **GREEN** Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by the Company, the Selling Shareholder, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, partners, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Further information regarding the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering”, and the procedures for applying for our Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and in the **GREEN** Application Forms.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of the Hong Kong Offer Shares to, confirm that he/she is aware of the restrictions on offers and sales of the Shares described in this prospectus and the **GREEN** Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

SELLING SHAREHOLDER

The Selling Shareholder estimates that it will receive net proceeds from the Global Offering of approximately HK\$297.4 million (assuming an Offer Price of HK\$19.32). We will not receive net proceeds from the sale of Sale Shares pursuant to the Global Offering.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued by us pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Dealings in the Shares on the Stock Exchange are expected to commence on Monday, January 16, 2023. Save as disclosed in this prospectus, no part of our Shares or loan capital is listed or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on any other stock exchange as of the date of this prospectus. All the Offer Shares will be registered on the Hong Kong register of members of the Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Offer Shares or exercising rights attached to them. None of us, the Selling Shareholder, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, partners, agents, advisers or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchasing, holding, disposition of, or dealing in, the Offer Shares or exercising any rights attached to them.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out under the sections headed “Underwriting” and “Structure of the Global Offering” in this prospectus.

HONG KONG REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

Our Company’s principal register of members will be maintained by its principal share registrar, Campbells Corporate Services Limited, in the Cayman Islands. All of the Offer Shares issued pursuant to the Global Offering will be registered on the Company’s Hong Kong share register to be maintained in Hong Kong by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong. Dealings in the Shares registered in the Company’s Hong Kong share register will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on the Hong Kong share register of the Company, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements as such arrangements may affect their rights and interests.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the GREEN Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Unless indicated otherwise, (i) the translations between Renminbi and U.S. dollars were made at the rate of RMB6.9861 to US\$1.00, (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.7803 to US\$1.00, and (iii) the translation between Hong Kong dollars and Renminbi were made at the rate of HK\$1.00 to RMB0.89792. The RMB to HK\$ and US\$ to RMB exchange rates are quoted by the PBOC for foreign exchange transactions prevailing on December 20, 2022. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version shall prevail. However, the English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. LI Yang (李陽)	Room 1802 No.2 Lane 2580, Jinxiu Road Pudong New Area Shanghai PRC	Chinese
Mr. LIAN Songyong (連松泳)	Room 19A, Building T2 No.2601 Xietu Road Xuhui District Shanghai PRC	Chinese
<i>Non-executive Directors</i>		
Mr. ZHAI Feng (翟鋒)	Room 1202, Building 4 Shiqiao International Trade Apartment No.16 East Third Ring Middle Road Chaoyang District Beijing PRC	Chinese
Mr. GENG Jiaqi (耿嘉琦)	Room 407, 29th Floor District 13, Heping Street Chaoyang District Beijing PRC	Chinese
Ms. LI Fangyu (李方雨) (with former name LI Fangqian (李芳芊))	Room 2-2503 Lane 258, Puming Road Pudong New Area Shanghai PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. FAN Mingchao (范銘超)	No.3219, Fuyun Manor Dianshanhu Town Kunshan City Jiangsu PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Mr. LIU Teng (劉騰)	Flat F, 4/F, Kai Tien Mansion Horizon Gardens No.17 Taikoo Wan Road Taikoo Shing Hong Kong	Chinese
Mr. JIANG Hua (江華)	Room 1002 No.12, Lane 199, Zhonghuaxin Road Jing'an District Shanghai PRC	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Haitong International Capital Limited
Suites 3001-3006 and 3015-3016
One International Finance Centre
No.1 Harbour View Street
Central, Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

**Overall Coordinators,
Sponsor-Overall
Coordinators and
Joint Global Coordinators**

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Huatai Financial Holdings (Hong Kong) Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

Joint Bookrunners

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

ICBC International Capital Limited
37/F ICBC Tower
3 Garden Road
Hong Kong

Joint Lead Managers

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

CLSA Limited

18/F, One Pacific Place
88 Queensway
Hong Kong

ICBC International Securities Limited

37/F ICBC Tower
3 Garden Road
Hong Kong

Tiger Brokers (HK) Global Limited

1/F, FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F, United Centre
No. 95 Queensway
Hong Kong

Valuable Capital Limited

2808, 28/F, China Merchants Tower
Shun Tak Centre,
168-200 Connaught Rd. C.
Hong Kong

Capital Market Intermediaries

Morgan Stanley Asia Limited

46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited

62/F, The Center
99 Queen's Road Central
Hong Kong

CLSA Limited

18/F, One Pacific Place
88 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

ICBC International Capital Limited

37/F ICBC Tower
3 Garden Road
Hong Kong

ICBC International Securities Limited

37/F ICBC Tower
3 Garden Road
Hong Kong

Tiger Brokers (HK) Global Limited

1/F, FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F, United Centre
No. 95 Queensway
Hong Kong

Valuable Capital Limited

2808, 28/F, China Merchants Tower
Shun Tak Centre,
168-200 Connaught Rd. C.
Hong Kong

Legal Advisers to the Company *as to Hong Kong and U.S. laws:*

O'Melveny & Myers

31/F, AIA Central
1 Connaught Road Central
Hong Kong

as to PRC law:

Grandall Law Firm (Shanghai)

23-25/F, Garden Square
968 West Beijing Road
Shanghai
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to PRC law and PRC data compliance law:

Tian Yuan Law Firm
10/F, Tower B
China Pacific Insurance Plaza
28 Fengsheng Hutong
Xicheng District
Beijing, PRC

as to Cayman Islands law:

Campbells
1301, 13/F, York House
The Landmark
15 Queen's Road Central
Hong Kong

**Legal Advisers to the Joint
Sponsors and Underwriters**

as to Hong Kong and U.S. law:

Clifford Chance
27/F, Jardine House
One Connaught Place
Central
Hong Kong

as to PRC law:

Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road
Beijing, PRC

**Auditor and Reporting
Accountant**

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

Industry Consultant

**Frost & Sullivan (Beijing) Inc.,
Shanghai Branch Co.**
2504 Wheelock Square
1717 Nanjing West Road
Shanghai 200040
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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Independent Property Valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 7/F One Taikoo Place 979 King's Road Hong Kong
Compliance Adviser	Haitong International Capital Limited Suites 3001-3006 and 3015-3016 One International Finance Centre No.1 Harbour View Street Central, Hong Kong
Receiving Bank	CMB Wing Lung Bank Limited 45 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered Office	Floor 4, Willow House Cricket Square Grand Cayman KY1-9010 Cayman Islands
Headquarters and Principal Place of Business in the PRC	Unit 1206, 12th Floor No.1089 Dongdaming Road Hongkou District Shanghai PRC
Principal Place of Business in Hong Kong	Rm 1901, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Company Website	<u>www.beautyfarm.com.cn</u> <i>(Information contained on this website does not form part of this prospectus)</i>
Joint Company Secretaries	Ms. ZHOU Min (周敏) Unit 1206, 12th Floor No.1089 Dongdaming Road Hongkou District Shanghai PRC Ms. KWOK Siu Ying Sarah (郭兆瑩) <i>Associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom</i> Room 1901, 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Authorized Representatives	Mr. LI Yang (李陽) Room 1802, No.2 Lane 2580, Jinxiu Road Pudong New Area Shanghai PRC Ms. KWOK Siu Ying Sarah (郭兆瑩) Room 1901, 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

CORPORATE INFORMATION

Audit Committee	Mr. LIU Teng (劉騰) (<i>Chairperson</i>) Mr. FAN Mingchao (范銘超) Ms. LI Fangyu (李方雨)
Remuneration Committee	Mr. FAN Mingchao (范銘超) (<i>Chairperson</i>) Mr. JIANG Hua (江華) Mr. ZHAI Feng (翟鋒)
Nomination Committee	Mr. FAN Mingchao (范銘超) (<i>Chairperson</i>) Mr. JIANG Hua (江華) Mr. LIAN Songyong (連松泳)
Principal Share Registrar	Campbells Corporate Services Limited Floor 4, Willow House, Cricket Square Grand Cayman KY1-9010 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Banks	Industrial and Commercial Bank of China (Hongkou Branch) No.578 Dongdaming Road Hongkou District Shanghai PRC China Merchants Bank (Xinkezhan Branch) No. 455 Tianmu West Road Jing'An District Shanghai PRC

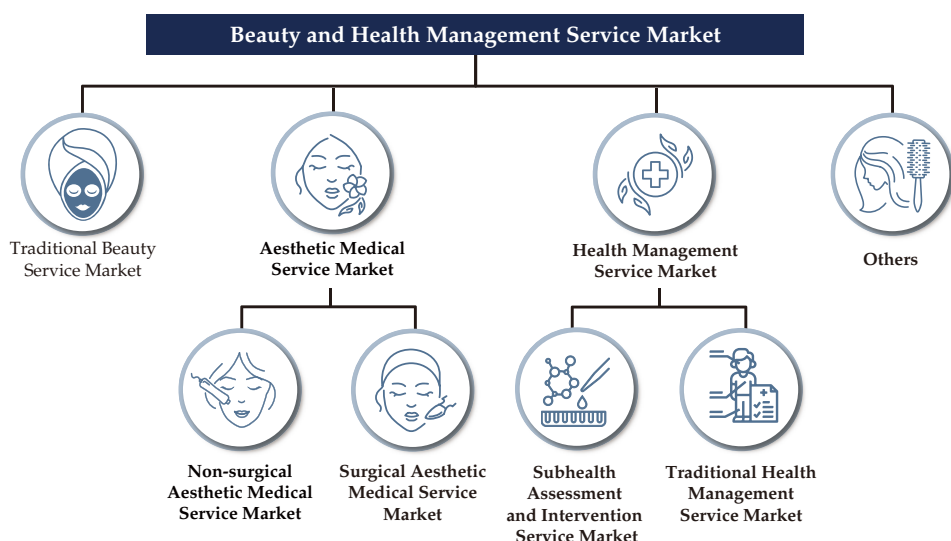
INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this prospectus were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the Global Offering. The information from official government sources has not been independently verified by us, the Selling Shareholder, the Joint Sponsors, the Overall Coordinators, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers, Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy.

OVERVIEW OF BEAUTY AND HEALTH MANAGEMENT SERVICES

The concept of beauty and health management services refers to a wide range of services to help consumers maintain and improve their physical appearance and health, including traditional beauty services, aesthetic medical services, health management services and others. Aesthetic medical services can be further categorized into non-surgical aesthetic medical services and surgical aesthetic medical services. Health management services refer to one-stop physical examination, consultation and intervention services for healthy and sub-health population, which can be subdivided into (i) traditional health management services applying clinical medicine; and (ii) newly emerged subhealth assessment and intervention services applying functional medicine in terms of the examination and intervention approaches. We have been dedicated to providing traditional beauty services since 1993 and expanded to non-surgical aesthetic medical services in 2011, to subhealth assessment and intervention services in 2018, within this beauty and health management service industry.

The following chart briefly illustrates the beauty and health management service market:



Source: Frost & Sullivan analysis.

INDUSTRY OVERVIEW

The main characteristics of traditional beauty services, aesthetic medical services and subhealth assessment and intervention services that the Company provides are demonstrated in the table below:

Service Categories	Beauty Services			Health Management Services
	Traditional Beauty Services	Aesthetic Medical Services		Subhealth Assessment and Intervention Services
		Non-surgical Aesthetic Medical Services	Surgical Aesthetic Medical Services	
Treated Areas	Superficial human tissues, generally limited to the skin, subcutaneous tissues and superficial muscles			Organ systems
Medical Interventions	Not involved	<ul style="list-style-type: none"> • Superficial treatments utilizing various forms of energy, such as laser, radiofrequency, intense pulsed light • Superficial cosmetic injections of dermal fillers, botulinum toxin type A, etc. 	Facial and body aesthetic surgeries	Functional medicine by means of intravenous infusion, intracavitary perfusion, holistic physical therapy, etc.
Effects of Services	Mild effects on maintaining consumers' skin conditions	Enhanced effects on maintaining and/or improving consumers' skin conditions	Visible alteration in consumers' appearance	Elevated conditions of the organ systems of the body, such as enhanced digestive power, hormone balance, intestinal flora balance
Main Products or Devices Used	<ul style="list-style-type: none"> • Skin care products, such as masks, lotions and serums • Body and facial care devices 	<ul style="list-style-type: none"> • Energy-based beauty devices, such as Fotona 4D system, Thermage RF system, etc. • Cosmetic injectables 	Surgical instruments	<ul style="list-style-type: none"> • Functional medicine equipment that provides functional assessment or intervention of organ systems, such as thermal texture maps system, hyperthermia system, etc. • Medications, such as reduced glutathione

INDUSTRY OVERVIEW

Service Categories	Beauty Services			Health Management Services
	Traditional Beauty Services	Aesthetic Medical Services		Subhealth Assessment and Intervention Services
		Non-surgical Aesthetic Medical Services	Surgical Aesthetic Medical Services	
Medical Practitioners	Not involved	Aesthetic dermatologists	Aesthetic surgeons	Internists
Medical Departments Involved	Not involved	Department of aesthetic dermatology	Department of aesthetic surgery	Department of internal medicine

Source: Frost & Sullivan analysis.

The overall beauty and health management service market size reached RMB1,236.5 billion in 2021, and several clear drivers can be observed in recent years and are expected to continue in near future:

Increasing disposable income and expanding middle class: *Per capita* disposable income of urban residents in China increased at a CAGR of 6.8% from RMB36,396 in 2017 to RMB47,412 in 2021. In addition, the number of middle-class households with annual household income above RMB300,000 in tier-one cities has grown from approximately 28.2 million in 2017 to approximately 46.4 million in 2021. Beauty and health management services nowadays pertain closely to consumerism and are likely to see a rise in demands.

Increasing awareness of beauty and health: Due to the rapid economic development and a service-oriented consumption upgrade in recent years, urban residents are able and willing to spend more money to maintain and improve well-being as well as physical appeal. Besides, as suboptimal health status (SHS) population grows and related physical and mental issues surge, many urban residents are suffering from various suboptimal health symptoms, which increases their awareness towards health improvement and disease prevention, such as cardiovascular diseases and gastrointestinal diseases.

INDUSTRY OVERVIEW

TRADITIONAL BEAUTY SERVICES

Traditional beauty services include body care services and facial services. Body care services mainly include slimming and body maintenance services. Facial services mainly include cleaning and moisturizing, skin whitening and skin rejuvenation services. Particularly, water circulation cleaning, skin moisturizing, skin whitening, skin tightening and body massage are popular among clients of traditional beauty services.

Customers

Traditional beauty service customers mainly age between 31 and 50, and are mostly white-collar professionals, executives, entrepreneurs, and housewives, among whom 82.5% are females living in cities. The average transaction value of traditional beauty services is in the range of RMB400 to RMB1,500. Particularly, among mid-to-high-end customers, the average transaction value is in the range of RMB800 to RMB1,500. When choosing an institution, they focus on service and product quality, brand reputation, comprehensive services, proficiency of practitioners, cost-effectiveness, locations and environments of institutions, among others.

Since traditional beauty services provide relief for skin and body conditions with moderate effects, consumers tend to repurchase and consume frequently, and take regular service sessions to refresh themselves and release stress.

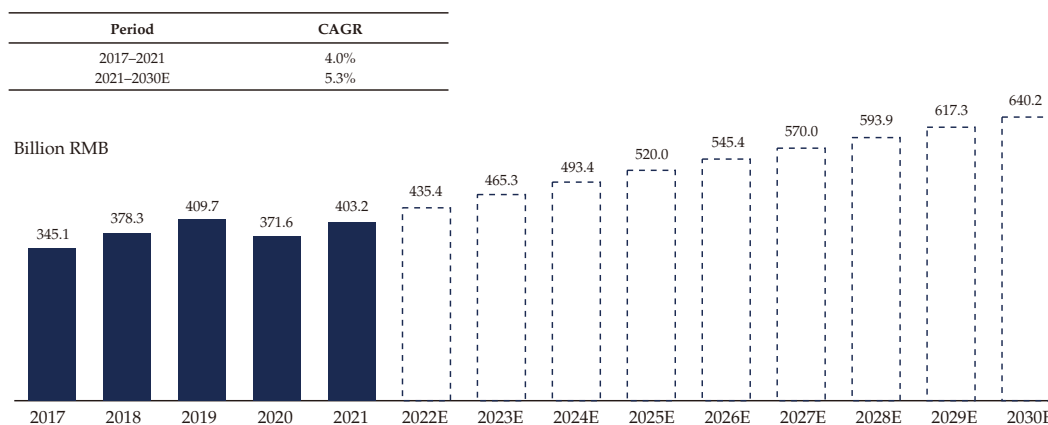
From 2017 to 2021, the population receiving traditional beauty services in China increased from 147.4 million to 155.2 million, with a CAGR of 1.3%. Although the population shrank from 161.8 million in 2019 to 152.1 million in 2020 and 155.2 million in 2021 due to the impact of COVID-19 pandemic, it is expected to grow in long term and is projected to reach 197.5 million in 2030.

Market Size

Total revenue of traditional beauty service market in China has grown from RMB345.1 billion in 2017 to RMB403.2 billion in 2021, with a CAGR of 4.0%. As the Chinese government imposed nationwide restrictions on social distancing and personal interaction, in response to the COVID-19 pandemic, the traditional beauty service market shrank from RMB409.7 billion in 2019 to RMB371.6 billion in 2020 and RMB403.2 billion in 2021. However, in the near future, with consumption upgrade, the traditional beauty service market will continue to grow, and the market size is forecasted to reach RMB640.2 billion in 2030, with a CAGR of 5.3% from 2021 to 2030.

INDUSTRY OVERVIEW

Total Revenue of Traditional Beauty Service Market in China, 2017-2030E



Source: China Healthcare Statistical Yearbook, Annual Report, Expert Interview, Frost & Sullivan analysis.

Key Growth Drivers

The development of traditional beauty service industry is driven by wide product offering, including serums, lotions and facial masks. Furthermore, daily facial and body care products are mostly classified as cosmetic products under the classification criteria of the NMPA, thus are much faster to obtain approval and start commercialization, as compared with aesthetic products and devices classified as Class III medical devices.

Entry Barriers

New entrants of the traditional beauty service market in China face the following entry barriers:

- **Strong brand effect of leading players:** Even though traditional beauty services are not as risky as other beauty services, such as surgical procedures or injections, clients tend to choose chain institutions with trusted reputation and proven track record of quality services, as such institutions with experienced practitioners and robust store networks tend to be more trustworthy to clients in guaranteeing the authenticity of products and high standard of services. It is difficult for new market entrants to establish a good brand reputation and achieve stable client flows in a short period of time.
- **Difficulty to scale up on personalized services:** As body and skin issues vary among clients of different genders, ages and regions, an increasing number of clients are expecting personalized and tailor-made services. As an institution expands, it is difficult to ensure the high quality of personalized services among different stores, as well as to standardize or streamline personalized service offerings during the process of expansion.

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- **Insufficient capital:** It is a capital heavy business, especially when operating a nation-wide network of stores. To be competitive in the market, constant capital investment to acquire and upgrade to cutting-edge devices and equipment is essential. In addition, leasing stores with high footage and renovating to maintain quality interiors also require heavy investment of capital.
- **Lack of experienced therapists:** The quality and client experience of traditional beauty services rely greatly on the skills of the therapists providing such services. There is a limited number of therapists who possess the relevant skills, systemic training and extensive experience. Furthermore, it takes a long time for a newcomer in this industry to become an experienced therapist. Together with the growing demand for traditional beauty services, the limited supply of trained therapists may result in increasing difficulty for service providers to hire and retain qualified and experienced therapists for the provision of traditional beauty services.

Competitive Landscape

Market players in traditional beauty service market in China mainly include domestic and international traditional beauty service providers with individual and chain stores in the PRC. All such market players were taken into account when analyzing the top market players for traditional beauty service market. As set forth in the table below, in terms of revenue generated from traditional beauty services at direct stores, our Group ranked first among competitors in China in 2021.

Top Market Players in Traditional Beauty Services in China by Revenue in 2021

Rank	Institution	Company background	Revenue <i>(RMB millions)</i>	Market Share <i>(%)</i>
1	Our Group	/	910.8	0.2
2	Guangzhou Naturade Beauty Technology Company Limited (廣州奈瑞兒美容科技有限公司)	A private beauty service group founded in 2007, headquartered in Guangzhou, China. It mainly provides traditional beauty services and non-surgical aesthetic medical services	674.9	0.2
3	Siyanli Beauty Limited Company (思妍麗美容集團)	A private beauty service group founded in 1996, headquartered in Shanghai, China. It mainly provides traditional beauty services and non-surgical aesthetic medical services	532.6	0.1

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Rank	Institution	Company background	Revenue <i>(RMB millions)</i>	Market Share <i>(%)</i>
4	Shanghai Zunya Industry Co., Ltd. (上海尊雅實業有限公司)	A private beauty service group founded in 1999, headquartered in Shanghai, China. It mainly provides traditional beauty services	354.0	0.1
5	Laboratoire Fillmed	A private beauty service provider based in France. It entered PRC market in 2017. It mainly provides traditional beauty services	311.0	0.1

Source: Expert Interview, Frost & Sullivan analysis.

Note: Revenue in the chart above excludes revenue generated from manicures, eyebrow tattooing and other services performed by third-party service providers.

Large-scale chain institutions with comprehensive service portfolio, established brand reputation and loyal client bases in mid-to-high-end markets are more likely to gain market shares in the future.

Future Trends

The future trends of the traditional beauty service market in China include the following:

- Increasingly specialized and differentiated services:** Due to clients' increased beauty awareness and advancement of beauty technologies, clients nowadays have more diversified and differentiated demands for traditional beauty services, such as skin whitening, body slimming, and skin tightening. As they have higher and more diversified requirements for services than before, service providers are encouraged to offer services in more professional ways in the future.
- Industry consolidation:** Consolidation among traditional beauty service market players is expected to accelerate within this fragmented industry, pushing the industry to gravitate towards providing services of higher quality and practice standards. Leading players, with technological superiority, brand awareness and client resource advantages, are expected to experience rapid expansion.

OVERVIEW OF AESTHETIC MEDICAL SERVICES

Aesthetic medical services are medical services that are primarily intended to maintain or improve personal appearance. Such services are generally elective and performed on various parts of clients' face and body. In general, aesthetic medical services may be categorized into non-surgical aesthetic medical services and surgical aesthetic medical services.

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Non-Surgical Aesthetic Medical Services

Non-surgical aesthetic medical services include two groups of services, namely, energy-based procedures and injection procedures. Energy-based procedures are performed with devices that utilize various forms of energy, such as laser, radiofrequency, intense pulsed light and ultrasound. They are used primarily for skin care and body contouring, such as acne and pigmentary treatments, rejuvenation applications and skin tightening. Injection procedures primarily comprise procedures that involve minimal penetration into body tissues, where substances such as botulinum toxin type A, collagen and hyaluronic acid dermal filler are injected into clients' face or body.

The following table sets forth the key service categories of injection procedures and energy-based procedures:

Injection Procedures	Energy-based Procedures
<div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Mesotherapy</div> <ul style="list-style-type: none"> Injecting active substances, such as hyaluronic acid, into the junction of dermis and epidermis through micro-injections or using the vacuum negative pressure technology with the aim to moisturize and hydrate skin, shrink pores, improve skin tone and lighten fine wrinkles. <div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Dermal Filling</div> <ul style="list-style-type: none"> Hyaluronic acid: material for facial shaping and wrinkle reduction. Collagen: replenish the skin's natural collagen. <div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Botulinum Toxin Injection</div> <ul style="list-style-type: none"> For the purpose of wrinkle removal, face thinning and weight loss. 	<div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Pulse Light</div> <ul style="list-style-type: none"> LED light therapy: For the purpose to kill acne-causing bacteria. Intense Pulsed Light (Photo Rejuvenation): Using broad-spectrum light to ease spots and trying to stimulate the rejuvenation of collagen. <div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Laser</div> <ul style="list-style-type: none"> Picosecond Laser: Using laser of picosecond pulse duration which can accurately blast pigment tissue or tattoo with the aim to reduce pigmentation and brighten skin tone. Q-Switch Laser: Using laser of nanosecond pulse duration which can accurately blast pigment tissue or tattoo with higher selective photothermolysis compared to picosecond laser. Fotona 4D: Using a multi-wavelength laser system for the purpose to tighten skin, reduce wrinkles and improve elasticity. <div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Radiofrequency</div> <ul style="list-style-type: none"> Thermage: Using radiofrequency to denature and constrict the collagen by heat energy, so as to activate the self-repairing process and stimulate the regeneration of collagen with an aim to improve skin texture, shrink pores, increase skin elasticity and whitening skin. Thermolift: Using radiofrequency energy reaching the epidermis, dermis and superficial muscular aponeurotic system intending to tighten the collagen in the skin. Radiofrequency Microneedling: Using tiny needles and radiofrequency waves to rejuvenate facial skin. <div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Ultrasound</div> <ul style="list-style-type: none"> Intended to promote the creation of collagen or reduce the number of fat cells. <div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Cryolipolysis</div> <ul style="list-style-type: none"> Using cold temperature intended to reduce fat deposits in certain areas of the body. <div style="background-color: #1a3d4d; color: white; padding: 2px 5px; margin-bottom: 5px;">Electric Muscle Stimulation</div> <ul style="list-style-type: none"> Elicitation of muscle contraction using electric impulses for the purpose of body shaping.

Source: Frost & Sullivan analysis.

Particularly, hyaluronic acid injection, botulinum toxin type A injection, photo rejuvenation, picosecond laser treatments and Thermage are popular among customers of non-surgical aesthetic medical services.

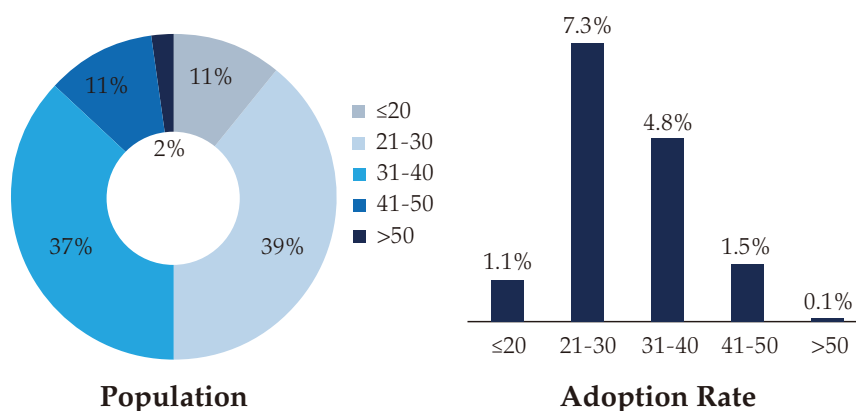
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Customers

Around 72.6% of non-surgical aesthetic medical service clients are female, among whom 76.0% are aged between 21 and 40. Customers in this age group have both strong purchasing power and demands for non-surgical aesthetic medical services, with an average annual spending in the range of RMB6,000 to RMB20,000 per year. Approximately 67.0% of non-surgical aesthetic medical service clients live in tier-one and new tier-one cities. The average transaction value of energy-based procedures is in the range of RMB4,000 to RMB20,000. Particularly, among mid-to-high-end clients, the average transaction value of energy-based procedures ranges from RMB9,000 to RMB20,000. The average transaction value of injection procedures is in the range of RMB2,000 to RMB10,000. Particularly, among mid-to-high-end clients, the average transaction value of injection procedures is in the range of RMB4,000 to RMB10,000.

From 2017 to 2021, the population receiving non-surgical aesthetic medical services in China increased from 6.0 million to 20.3 million, representing a CAGR of 35.7%, and such number is projected to reach 67.2 million in 2030 with a CAGR of 14.2% from 2021 to 2030.

**Female Consumers for Non-Surgical Aesthetic Medical Services
Distributed by Age, 2021**



Source: National Bureau of Statistics of the PRC, Expert Interview, Frost & Sullivan analysis.

Note: The adoption rate refers to the percentage of female consumers of non-surgical aesthetic medical services of the relevant age cohort out of the total population of the same age cohort in 2021.

Features

The non-surgical aesthetic medical service market has the following features:

- **High client stickiness:** Since the non-surgical aesthetic medical services are medical-related and usually need periodic treatment to achieve and maintain the optimal treatment effects, clients tend to choose the brand that they previously used and trusted for non-surgical aesthetic medical services. Therefore, the client stickiness and repurchase rate are relatively high in this industry.

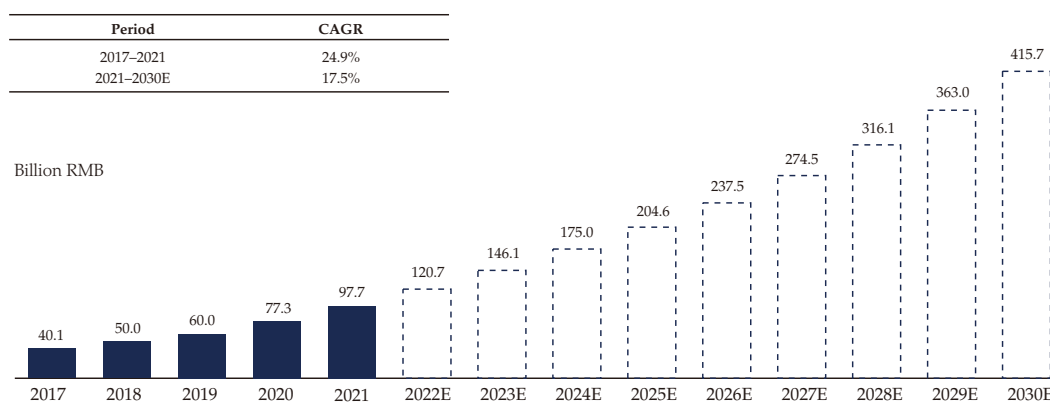
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- Lower mental burden:** Surgical aesthetic medical services are usually performed with the intention to alter the appearance of various parts of the face or the body, such as eyelids, nose, breast and facial shape, and typically involve local or general anaesthesia, as well as partial or full incisions. Comparatively, non-surgical aesthetic medical services will not alter the appearance of the client, and generally only involve local anaesthesia (if any at all) or minimal penetration (if any at all) into body tissues, for the purpose to improve or maintain the facial or body condition of the clients. In addition, surgical beauty procedures may have prosthetic implants placed into human body. As a result, the recovery time for non-surgical aesthetic medical services is relatively shorter than surgical aesthetic medical services, and the risk of complications, such as incision infections, anesthesia and implant-related complications, is also relatively lower compared to that of surgical aesthetic medical services. As such, clients usually have less concerns and lower mental burden when receiving non-surgical aesthetic medical services as compared to surgical aesthetic medical services.
- Diversity and professionalism of services:** As non-surgical aesthetic medical procedures become increasingly diversified and specialized, advanced technologies, such as Thermage, Fotona 4D[®], and radiofrequency microneedling, are applied in order to meet the personalized consumer demands.

Market Size

Total revenue of non-surgical aesthetic medical service market in China grew from RMB40.1 billion in 2017 to RMB97.7 billion in 2021 with a CAGR of 24.9%. The total revenue is forecasted to reach RMB415.7 billion in 2030, with a CAGR of 17.5% from 2021 to 2030.

**Total Revenue of Non-Surgical Aesthetic Medical Services Market
in China, 2017-2030E**

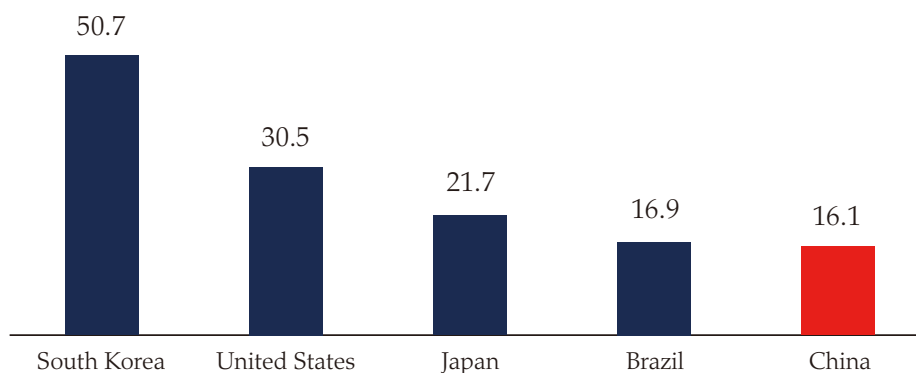


Source: China Healthcare Statistical Yearbook, Chinese Association of Plastics and Aesthetics, Annual Report, Expert Interview, Frost & Sullivan analysis.

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The non-surgical aesthetic medical procedures per thousand people in China has increased from 6.4 in 2016 to 16.1 in 2020 drastically, with a CAGR of 26.0%. However, the penetration of non-surgical aesthetic medical services in China is still low compared with the same in other major markets, where, for example, non-surgical aesthetic medical procedures per thousand people was 50.7 in South Korea and 30.5 in the United States in 2020. The differences demonstrate that China is a developing market in respect of non-surgical aesthetic medical services. Non-surgical aesthetic medical services are widely accepted in tier-one cities and new tier-one cities in China. As large-scale chain institutions open stores in smaller cities, people in such cities are provided with opportunities to improve or maintain their face and body conditions safely and effectively, they are likely to embrace non-surgical aesthetic medical services and make such services part of their overall lifestyle, along with the expected increase in per capita consumption expenditure of PRC residents on non-surgical aesthetic medical services in the future ten years from RMB69.0 in 2021 to RMB286.1 in 2030.

**Non-surgical Aesthetic Medical Procedures per Thousand People
in Major Countries, 2020**



Source: *The International Society of Aesthetic Plastic Surgery, The American Society for Aesthetic Plastic Surgery, World Bank, Frost & Sullivan analysis.*

Key Growth Drivers

The following key factors have primarily driven the growth of non-surgical aesthetic medical service market:

- **Growing social acceptance:** Driven by people's enhanced aesthetic awareness and technological advancement which lead to better treatment outcomes, there has been a positive shift in social impression of injections and energy-based beauty services in recent years. For example, many young people are receiving non-surgical aesthetic medical services to pursue their personalized needs. At the same time, some older people are receiving non-surgical aesthetic medical services, such as injections of HA-based dermal fillers, to prevent skin aging or wrinkles.

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- **Development in technology and innovations of materials:** The rapid advancement in material science, biotechnology, and the pharmaceutical industry has yielded more effective and safer service outcomes with lower risks and faster recovery, which makes non-surgical aesthetic medical services increasingly widely accepted by consumers. For example, Thermage and Fotona 4D[®] can improve skin texture and elasticity with radiofrequency, and achieve better tightening effect. Sculptra, a poly-L-lactic acid injectable filler, and Ellansé, a Poly-ε-caprolactone-based injectable dermal filler, were recently commercialized after demonstrating long lasting and significant efficacy in skin condition improvement in clinical trials.

Entry Barriers

The new entrants of the non-surgical aesthetic medical service market in China face the following entry barriers:

- **Strict standards of industry regulation:** In China, the non-surgical aesthetic medical service industry is strictly regulated. According to the Measures for the Administration of Aesthetic Medical Services (《醫療美容服務管理辦法》), non-surgical aesthetic medical service providers are required to apply for “License for Practicing of Medical Institutions (醫療機構執業許可證)”. Moreover, non-surgical aesthetic medical service physicians should have practicing qualifications and work experience in the relevant field. In addition to the related qualification requirements, in recent years, the Chinese government has enacted various laws and regulations to regulate and supervise the business of the non-surgical aesthetic medical service industry. For example, “Notice on Further Strengthening the Comprehensive Supervision and Law Enforcement of Aesthetic Medical Services” (《關於進一步加強醫療美容綜合監管執法工作的通知》) was released in April 2020, aiming to standardize the industry.
- **Difficult to establish brand reputation:** As the non-surgical aesthetic medical service industry becomes more mature and transparent, clients grow to be more rational and usually choose reputable service institutions for reliable services. Any dissatisfactory service may have a negative effect on the brand reputation of non-surgical aesthetic medical service providers. For new entrants, it could be difficult to establish a good brand reputation in a short time period.
- **High capital requirements:** To enter the non-surgical aesthetic medical service market in China, new entrants usually need a large sum of initial capital to purchase essential medical devices and products. In addition, non-surgical aesthetic medical service institutions need to rent or purchase proper workplace to provide medical services for clients, which may be costly. Furthermore, it takes both manpower and financial resources to employ eligible medical professionals to provide quality non-surgical aesthetic medical services for clients and to lay a foundation for sustainable

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development of the market players. Therefore, new entrants have to prepare abundant capital to support the operation of non-surgical aesthetic medical service business in the early stage.

- **Difficult to recruit certificated practitioners:** In China, there are a limited number of certificated practitioners who possess the required qualification, relevant skills, rigorous professional training and extensive experience in non-surgical aesthetic medical treatments. In 2020, the total number of certificated practitioners providing beauty services in China was around 38,000, which accounted for only 36.0% of the forecasted number of certificated practitioners needed in the market in the same year. Together with the growing demands for non-surgical aesthetic medical services, the limited supply of certificated practitioners may result in increasing difficulty for service providers to hire and retain qualified and experienced practitioners for the provision of non-surgical aesthetic medical services.
- **High selling expenses:** New entrants of the non-surgical aesthetic medical service market generally bear high selling expenses, which usually account for more than 30% of their revenue in the beauty service industry. Some new entrants develop both online and offline channels to market their services and/or products. Among online channels, non-surgical aesthetic medical service providers usually incur the highest selling expenses on search engines.

Competitive Landscape

Market players in non-surgical aesthetic medical service market in China mainly include public and private hospitals, chained and independent aesthetic medical institutions that provide non-surgical aesthetic medical services. All such market players were taken into account when analyzing the top market players for non-surgical aesthetic medical service market. The non-surgical aesthetic medical service market in China remains fragmented while it is expected to undergo a series of consolidations in the coming years. As set forth in the table below, in terms of revenue generated from non-surgical aesthetic medical services in 2021, our Group ranked fourth among competitors in China's market.

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Top Market Players in Non-Surgical Aesthetic Medical Service Market in China by Revenue in 2021

Rank	Institution	Company background	Revenue <i>(RMB millions)</i>	Market Share <i>(%)</i>
1	Mylike Aesthetic Plastic Hospital Group (美萊醫療美容醫院集團)	A private beauty service group founded in 1999, headquartered in Shanghai, China. It mainly provides non-surgical aesthetic medical services and surgical aesthetic medical services	3,240.0	3.3
2	Yestar Cosmetic Surgery Group (藝星醫療美容集團)	A private beauty service group founded in 2009, headquartered in Shanghai, China. It is specialized in surgical aesthetic medical services, while it also provides non-surgical aesthetic medical services	1,170.0	1.2
3	Beijing Evercare Medical Technology Group (北京伊美爾醫療科技集團股份公司)	A private beauty service group founded in 1997, headquartered in Beijing, China. It mainly provides non-surgical aesthetic medical services and surgical aesthetic medical services	907.0	0.9
4	Our Group	/	586.9	0.6
5	Aesthetic Medical International Holdings Group Ltd. (醫美國際控股集團公司) (Nasdaq: AIH)	A public beauty service group founded in 1997, headquartered in Shenzhen, China, and listed in the Nasdaq in 2019. It mainly provides non-surgical aesthetic medical services, surgical aesthetic medical services and healthcare services	334.3	0.3

Source: Annual Report, Expert Interview, Frost & Sullivan analysis.

Note: Revenue in the chart excludes revenue generated from surgical procedures.

Although certain market players in non-surgical aesthetic medical service market are also major market players in surgical aesthetic medical service market, our Company, mainly providing traditional beauty and non-surgical aesthetic medical services, is different from them in service portfolios and business focuses.

Large-scale chain institutions with high service quality, established brand reputation and loyal client bases in mid-to-high-end markets are more likely to gain market shares.

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Future Trends

In the future, proliferation of innovative digitalization tools will improve industry transparency and information quality for consumers. Digitalization enables the assessment of client information for service providers to draw meaningful insights and make tailored recommendation that is most relevant to meet client needs. Digitalization in non-surgical aesthetic medical service industry also enables the market players to customize services according to skin types and issues, and numerous other features that are client specific.

Integration With Traditional Beauty Services

Scientific and technological advancements enable great progress in non-surgical aesthetic medical service market. Nowadays, non-surgical aesthetic medical services are safer and more tolerable for a wider range of skin types, and are more natural in service results than they were before. Customers are gradually perceiving non-surgical aesthetic medical services as a natural extension of traditional beauty services to achieve the same goal, with the former providing quicker, more visible and long-lasting effects. Large-scale chain institutions offering both kinds of services are likely to enjoy growth synergies from the two groups of services. These two segments supplement each other and can attract client traffic mutually.

Customers are likely to embrace the idea that receiving a combination of non-surgical aesthetic medical services with customized traditional beauty sessions brings better results for customers (such as prolonged effects) than receiving such services separately. For example, consumers with acne scar problems may be recommended to have laser treatments along with post-treatment skin moisturizing services. Laser treatment is used to break up scar tissue and to encourage new and healthy skin cell growth. However, such laser treatment may dry and irritate the skin. Regular or emergent skin moisturizing services will help hydrate the skin and smooth the scar. There is also a trend that traditional beauty and non-surgical aesthetic medical services will integrate to serve customers routinely to maintain a good skin condition. When combining the two fast growing and ever integrating segments of traditional beauty services and non-surgical aesthetic medical services together, we would be ranked the second in terms of revenue in 2021 in China.

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Surgical Aesthetic Medical Services

Surgical aesthetic medical services refer to plastic surgeries performed by licensed physicians with the purpose to alter appearance, such as mouth, nose, breast and facial shape. Such services typically involve local or general anesthesia and incisions of the skin or body. Consumption frequency of surgical aesthetic medical services is relatively low due to the long-lasting effects and operational risks and complexity. Customers receiving surgical procedures bear some risk of complications related to surgical operations, anesthesia, among others. After surgical procedures, customers generally need one to six months to recover.

According to the Catalogue for the Hierarchical Management of Medical Aesthetic Items, surgical aesthetic medical services can be divided into four grades based on the difficulty, complexity and risks:

	Brief Introduction	Examples of Procedures	Institutions
Grade I Procedures	<ul style="list-style-type: none"> Grade I surgical aesthetic medical items are beauty procedures that have the lowest risks and operational complexity, not requiring general anesthesia, such as, intravenous general anesthesia, endotracheal general anesthesia and combined anesthesia 	<ul style="list-style-type: none"> Double eyelid plasty, eyebrow lifting, liposuction with removed fat tissue less than 1,000 ml, etc. 	<ul style="list-style-type: none"> Clinics Outpatient departments Hospitals
Grade II Procedures	<ul style="list-style-type: none"> Grade II surgical aesthetic medical items are beauty procedures that have certain risks and operational complexity, requiring epidural nerve block or intravenous general anesthesia 	<ul style="list-style-type: none"> Breast augmentation, comprehensive rhinoplasty, liposuction with removed fat tissue between 1,000 ml and 2,000 ml, etc. 	<ul style="list-style-type: none"> Outpatient departments Hospitals
Grade III Procedures	<ul style="list-style-type: none"> Grade III surgical aesthetic medical items are beauty procedures that have increased risks and operational complexity, requiring endotracheal general anesthesia and preoperative blood preparation 	<ul style="list-style-type: none"> Liposuction with removed fat tissue between 2,000 mL and 5,000 mL, etc. 	<ul style="list-style-type: none"> Hospitals
Grade IV Procedures	<ul style="list-style-type: none"> Grade IV surgical aesthetic medical items are beauty procedures that have the highest risks and operational complexity among all surgical beauty procedures 	<ul style="list-style-type: none"> Reduction malarplasty, etc. 	<ul style="list-style-type: none"> Hospitals

Source: *Catalogue for the Hierarchical Management of Medical Aesthetic Items, Frost & Sullivan analysis.*

The Company provides periocular beauty procedures, double eyelid construction, lipofilling services and liposuction surgeries, which are all categorized as Grade I procedures.

HEALTH MANAGEMENT SERVICE MARKET

Health management services are one-stop medical services of physical examination, consultation and intervention, for the purpose to help clients prevent diseases, maintain or obtain a better physical condition, rather than treating any particular existing disease. Health management services can be categorized into (i) traditional health management services; and (ii) recently emerged subhealth assessment and intervention services. Traditional health management services are generally provided by private physical examination institutions, by means of traditional clinical medicine. Such services target ordinary city residents. In contrast, subhealth assessment and intervention services are provided by medical institutions offering functional medicine services. Customers of subhealth assessment and intervention services are usually high-net-worth individuals.

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Subhealth Assessment and Intervention Services

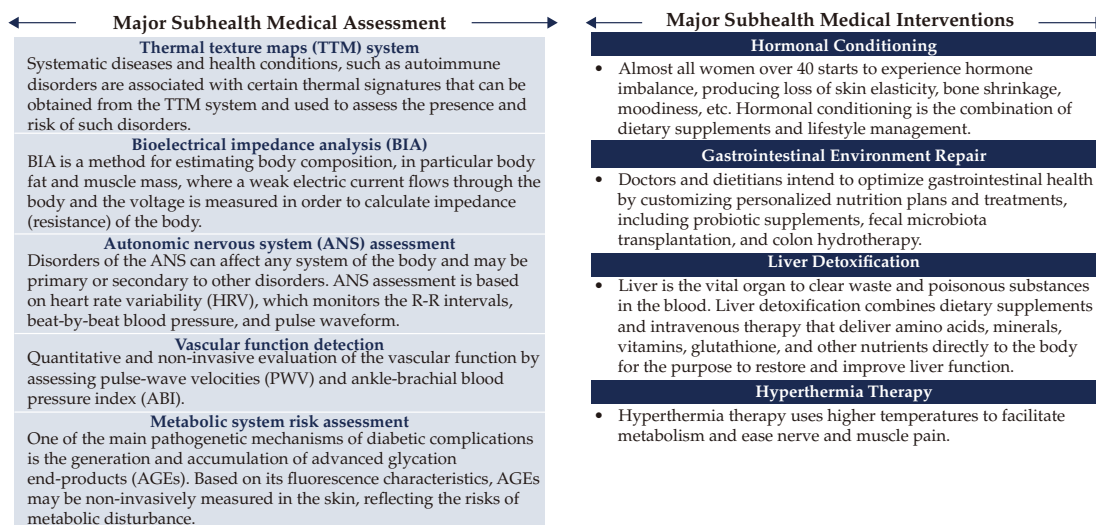
Subhealth assessment and intervention services refer to medical services that aim to improve clients' physical health conditions, by way of regulating and enhancing the functions of the organ systems of the client's body, which generally include a combination of three service steps, specifically, (i) functional health assessment that tests the functional status of various internal organ systems within the human body, including but not limited to the endocrine system, immune system and digestive system, (ii) post-test consultation with doctors, and (iii) tailor-made intervention measures by applying functional medicine. Unlike the treatment of diseases, subhealth assessment and intervention services focus on disease prevention, and long-term health monitoring and maintenance based on the detection and assessment results of clients. Subhealth assessment and intervention service providers offer personalized diagnostic and treatment plan for each client, to help the client's body function in the best way possible.

Key subhealth assessment and intervention services include comprehensive functional health assessment, health consultation, and intervention applying functional medicine. Main functional health assessments include thermal texture map system assessment, bioelectrical impedance analysis, autonomic nervous system assessment, vascular function detection, and metabolic system risk assessment. Main health interventions include functional medical treatments, such as hormonal conditioning, gastrointestinal environment repair and liver detoxification. Among the services named above, the Company provides main functional health assessments, expert consultation and functional medical interventions.

According to Frost & Sullivan, there is currently no recommendation from national or international treatment guidelines for assessment or intervention measures for subhealth status, including subhealth assessment and intervention services provided by the Company.

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In addition, some assessment and intervention approaches have been evaluated in clinical studies or included in expert consensus in China in different areas. For example, the efficacy of thermal texture mapping (TTM) has been proven in the diagnosis of abnormal physical signatures in several clinical studies; comprehensive hormonal conditioning has been recommended for the health management of climacteric women in the Consensus on Climacteric Women Health Management (《更年期婦女健康管理專家共識》) in 2021.



Source: Frost & Sullivan analysis.

Customers

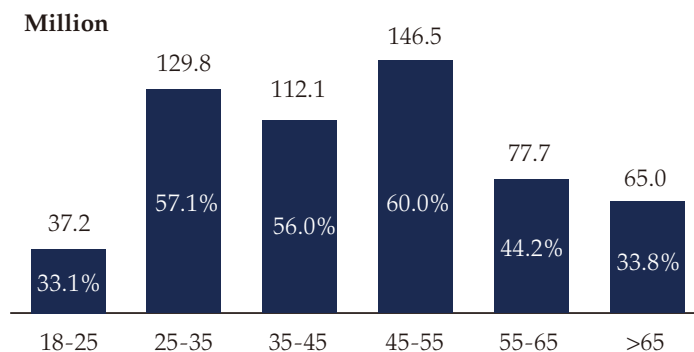
Subhealth assessment and intervention service clients are mainly middle-aged clients seeking health examination, consultation and disease prevention, as well as urban residents affected by sub-health symptoms.

Healthy state refers to a state of complete physical, mental, and social well-being, not merely in absence of disease or infirmity. A diseased state is a particular abnormal condition that negatively affects the structure or function of all or part of an organism, which abnormal condition is not resulted from any immediate external injury. Suboptimal health status is an intermediate state between a healthy and a diseased state. Suboptimal health status, or sub-health, can be defined as a pre-disease condition characterized by certain disturbances in psychological behaviors, physical characteristics, or abnormal physical indications shown in physical examinations, which mainly include: (a) physical and mental discomfort shown in the form of various symptoms, such as physical fatigue and emotional disorder; (b) weakness resulted from abnormal declines in physical functions; (c) microbiota imbalance in body; and (d) pre-disease pathophysiological change. Common physical symptoms include: fatigue, chronic pain, dizziness, sleep disorders, inappetence and digestive issues. Common psychological symptoms include: depression and anxiety, memory deterioration and attention-deficit disorder. People in sub-health status may also have difficulty in social interaction. People will be diagnosed with sub-health status if he or she has at least one of the aforementioned symptoms for over three months, without any specific cause of diseases found in systemic examination.

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SHS has emerged as a main issue among Chinese residents as people are facing increasing mental pressures from work and home lives. SHS has been troubling people in a wide age range, with middle-aged adults constituting the majority of the SHS population. The annual spending on the subhealth assessment and intervention services per client ranged from RMB10,000 to RMB200,000. The below chart shows the sub-health rates in different age groups in China in 2021, where people under age 18 are not taken into consideration and calculation.

Sub-Health Population in Different Age Groups in China (2021)

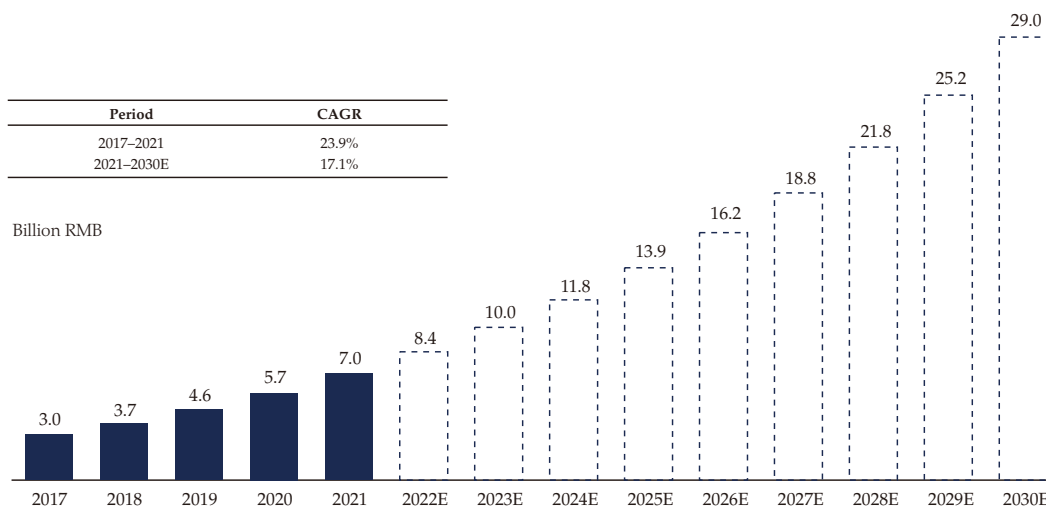


Source: China Healthcare Statistical Yearbook, Expert Interview, Frost & Sullivan analysis.

Market Size

Total revenue of subhealth assessment and intervention service market in China has grown from RMB3.0 billion in 2017 to RMB7.0 billion in 2021, with a CAGR of 23.9%. It is forecasted to reach RMB29.0 billion in 2030, with a CAGR of 17.1% from 2021 to 2030.

Total Revenue of Subhealth Assessment and Intervention Service Market in China, 2017-2030E



Source: China Healthcare Statistical Yearbook, Expert Interview, Frost & Sullivan analysis.

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Key Growth Drivers

The following key factors have primarily driven the growth of the subhealth assessment and intervention service market:

- **Increasing SHS population:** China's SHS population is becoming increasingly prominent, which grew from 557.9 million in 2017 to 568.4 million in 2021, and is expected to reach 583.1 million by 2030. In 2021, more than 50% of the total population aged between 25 and 55 is under SHS. Meanwhile, various sub-health symptoms have seriously troubled people under sub-health status, which situation increases people's awareness towards health improvement and disease prevention, and in turn creates huge demands for subhealth assessment and intervention services.
- **Technological advancement:** An increasing number of advanced technologies have been introduced in the subhealth assessment and intervention service market, such as IRATHERM[®], which simulates sunlight to help increase the core body temperature of the client to the range of 38.5°C and 40.5°C, and intends to accelerate metabolism of the body. Leveraging the technological advancement, subhealth assessment and intervention service providers are able to provide higher quality services to more customers and cultivate an increasingly recognizable and professional brand image, which in turn will attract more customers.

Competitive Landscape

The subhealth assessment and intervention service market is an emerging market at a relatively early stage. In terms of revenue generated from subhealth assessment and intervention services in 2021, the Company's market share is approximately 0.9%. However, it has market growth potential in the years to come. New players are expected to expedite the pace of their investments and to expand their service network, tapping into the subhealth assessment and intervention service market. Existing players in traditional beauty service market or non-surgical aesthetic medical service market may add subhealth assessment and intervention services to their service portfolios, which would become one of their core competitiveness.

Top five market players in subhealth assessment and intervention service market in China are set forth in the table below, in terms of revenue generated from subhealth assessment and intervention services in 2021.

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Top Market Players in Subhealth Assessment and Intervention Services in China by Revenue in 2021

Rank	Institution	Company background	Revenue <i>(RMB millions)</i>	Market Share <i>(%)</i>
1	Yiling Hospital Management Group (一齡醫院管理集團)	A private hospital group founded in 2005	638.0	9.1
2	Shanghai Cell Therapy Group (上海細胞治療集團)	A private hospital group founded in 2013	475.0	6.8
3	Shenzhen CVP Medical Technology Company Limited (深圳施為必醫療科技有限公司)	A private medical group founded in 2018	233.0	3.3
4	Shenzhen Zhongxu Medical Group (深圳中旭醫學集團)	A private hospital group founded in 2017	218.0	3.1
5	SNC Cell Engineering Group (華夏源細胞工程集團)	A private hospital group founded in 2015	135.0	1.9

Source: Frost & Sullivan analysis.

Future Trends

The subhealth assessment and intervention service industry in China is expected to be influenced by the following trends:

- Customized service offering:** Subhealth assessment and intervention service providers in China are expected to increasingly focus on enhancing their services and operations through advanced technologies and digitalization, and computer-aided design, which allow increased specialization in sub-health assessment in various dimensions, as well as improved operational efficiency. Such advancements help deliver customized services with tailor-made sub-health intervention strategies and feasible plans to the clients.

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- **Extended target clients:** Driven by people's increasing awareness of healthcare, the target clients of subhealth assessment and intervention services are no longer limited to older generation. Consumers, such as those aged between 25 and 35, are also receptive to subhealth assessment and intervention services for better health conditions and prevention of diseases. Moreover, heavy workloads and unhealthy lifestyles of white-collar workers in urban areas have brought about many sub-health issues, such as sleeping disorders, depression, anxiety, and chronic fatigue. In order to stay healthy and prevent more serious problems, either physically or mentally, a wider group of people may become receptive to subhealth assessment and intervention services.
- **Synergies with other beauty and health management services:** As an emerging industry in beauty and health management service industry, some subhealth assessment and intervention service providers in China are seeking cooperation with other related industries, such as traditional beauty service industry and aesthetic medical service industry, to attract customers. Market players are able to take advantage of such synergy to expand their lines of business, and to provide one-stop integrated service experience for their clients.

SOURCE OF INFORMATION

We engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report on, the beauty and health management service market for use in this prospectus. Founded in 1961, Frost & Sullivan provides market research on a variety of industries, among other services. The information from Frost & Sullivan disclosed in the prospectus is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB600,000, and is disclosed with the consent of Frost & Sullivan. The Frost & Sullivan Report is prepared through extrapolating publicly available data such as information provided by the government, annual reports of public companies, trade and medical journals, industry reports and market data gathered by conducting interviews with key industry experts and leading industry participants. Frost & Sullivan has exercised due care in collecting and reviewing the information so collected.

Our Directors confirm that, to the best of their knowledge, after taking reasonable care, there has been no adverse change in market information since the date of the Frost & Sullivan Report, which may qualify, contradict or impact the information disclosed in this section.

REGULATIONS RELATING TO MEDICAL SERVICES

Regulations stipulated below are in relation to the Group's provision of medical services, including aesthetic medical services (including a limited amount surgical aesthetic medical services that are classified as low-risk Grade I medical procedures according to the applicable laws and regulations) and subhealth assessment and intervention services. For further details of the Company's compliance status of the relevant rules and regulations, please refer to the section headed "Business — Compliance, Licenses and Permits" in this prospectus.

Regulations on the Reform of Medical and Healthcare System

Opinions on Deepening the Reform of the Medical and Healthcare System

The Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening the Reform of the Medical and Healthcare System (中共中央、國務院關於深化醫藥衛生體制改革的意見) promulgated and took effect on 17 March 2009 encourage social capital to invest in the medical institutions (including investments by the foreign investors), and promote the development of private medical institutions and the reform of public medical institutions (including those established by state-owned enterprises) through social capital investment.

Notice on Further Encouraging and Guiding the Establishment of Medical Institutions by Social Capital

The Notice of the General Office of the State Council on Forwarding the Opinions of the National Development and Reform Commission, the Ministry of Health and Other Ministries on Further Encouraging and Guiding the Establishment of Medical Institutions by Social Capital (國務院辦公廳轉發發展改革委衛生部等部門關於進一步鼓勵和引導社會資本舉辦醫療機構意見的通知), which was promulgated by the General Office of the State Council and took effect on 26 November 2010, stipulates that the PRC government encourages and supports investments by private investors in medical institutions of various types. Private investors are permitted to apply to establish for-profit or not-for-profit medical institutions. Private medical institutions are encouraged to engage or authorise domestic or overseas medical institutions with professional experience to participate in the management of hospitals to improve their efficiencies.

Several Opinions on Promoting the Development of Healthcare Service Industry

The Several Opinions on Promoting the Development of Healthcare Service Industry (國務院關於促進健康服務業發展的若干意見), which was promulgated by the State Council and took effect on 28 September 2013, encourage the private sector to invest in the healthcare service industry by various means including new establishment and participation in restructuring and propose the idea of the relaxation of the requirements for Sino-foreign equity joint or cooperative joint medical institutions and gradually expand eligibility in the pilot program for wholly foreign-invested medical institutions.

Several Opinions on Accelerating the Development of Medical Institutions with Social Capital

The Several Opinions on Accelerating the Development of Medical Institutions with Social Capital (關於加快發展社會辦醫的若干意見), which was promulgated on 30 December 2013 by the National Health and Family Planning Commission (the “NHFPC”) and the State Administration of Traditional Chinese Medicine (the “SATCM”) and came into effect on the same date, stipulate the policies that support the development of private-invested medical institutions, including but not limited to the (i) gradual relaxation of investment in medical institutions by foreign capital; (ii) relaxation of requirements for service sectors, allowing social capital’s investment in the areas which are not explicitly prohibited; and (iii) acceleration of the approval procedures regarding the establishment and operation of private hospitals.

Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020)

The Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020) (關於印發全國醫療衛生服務體系規劃綱要(2015-2020年)的通知), which was promulgated by the General Office of the State Council and took effect on 6 March 2015, stipulates that private medical institutions are significant and integral parts of the medical and healthcare service system as well as an effective approach to fulfilling people’s multi-level and diversified medical and healthcare service needs. Private medical institutions may provide high-end services to fulfil extra needs which are beyond basic needs. The pilot scheme of establishment of medical institutions solely invested by qualified overseas capitals shall be expanded step by step. The restrictions on service scope shall also be reduced and the social capitals shall be allowed to invest in areas not explicitly prohibited by the laws and regulations.

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Social Capital

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Social Capital (關於促進社會辦醫加快發展若干政策措施的通知), which was promulgated by the General Office of the State Council on 11 June 2015 and came into effect on the same day, stipulate (i) the elimination and cancellation of unreasonable preceding items for examination and approval and the reduction in the time required for making such examination and approval; (ii) the reasonable control of the number and scale of the public medical institutions and the exploration of the space for development of the medical institutions invested by social capital; and (iii) the support for the listing and financing of such eligible and qualified for-profit medical institutions invested by social capital.

Notice on Printing Guiding Principles for the Allocation Planning of Medical Institutions (2016-2020)

The Notice on Printing Guiding Principles for the Allocation Planning of Medical Institutions (2016-2020) (國家衛生計生委關於印發醫療機構設置規劃指導原則(2016-2020年)的通知), which was promulgated by the NHFPC and took effect on 21 July 2016, encourages the establishment of medical institutions by social capital and stipulates (i) the acceleration of the scale and high-level development of medical institutions with social capital, and the involvement of medical institutions with social capital in relevant planning to reserve space for the allocation of resources such as beds and large medical equipment according to a certain proportion, and (ii) the cancellation of limitations on the amount and location of medical institutions with social capital in accordance with total amount and structure of planning.

Regulations on the Administration and Classification of Medical Institutions

Administrative Measures on Medical Institutions and its Implementation Measures

The Administrative Measures on Medical Institutions (醫療機構管理條例), which was promulgated on 26 February 1994 by the State Council and came into effect on 1 September 1994 and last amended and took effect on 6 February 2016, and the Implementation Measures of the Administrative Measures on Medical Institutions (醫療機構管理條例實施細則), promulgated by the Ministry of Health of the PRC (the “MOH”) on 29 August 1994 and came into effect on 1 September 1994 and last amended on 21 February 2017 by NHFPC and came into effect on 1 April 2017, stipulate that any entity or individual that intends to establish a medical institution to provide medical services must comply with the relevant application and approval procedures and register with the relevant healthcare administrative authorities to obtain a Medical Institution Practicing License (醫療機構執業許可證). On April 7, 2022, the State Council promulgated the Decision of The State Council on Amending or Abolishing Certain Administrative Regulations, which came into effect on May 1, 2022, and according to which, medical institutions must obtain a Medical Institution Practicing License before practicing, whilst a clinic may practice after filing with competent healthcare administrative authorities.

Administrative Measures for the Examination of Medical Institutions (for Trial Implementation)

The Administrative Measures for the Examination of Medical Institutions (For Trial Implementation) (醫療機構校驗管理辦法(試行)) (the “**Administrative Measures for Examination**”), which was promulgated by the MOH and came into effect on 15 June 2009, stipulate that a medical institution’s Medical Institution Practicing License (醫療機構執業許可證) is subject to periodic examinations and verifications by the registration authorities, and will be cancelled if such medical institution fails to pass the examination.

Opinions on Implementing Classification Administration of Urban Medical Institutions

The Opinions on Implementing Classification Administration of Urban Medical Institutions (關於城鎮醫療機構分類管理的實施意見), jointly promulgated by the MOH, SATCM, Ministry of Finance (the “MOF”) and National Development and Reform Commission (the “NDRC”) on 18 July 2000 and came into effect on 1 September 2000, provide that not-for-profit and for-profit medical institutions shall be classified based on their business objectives, service purposes and implementation of divergent financial, taxation, pricing and accounting policies. The Group’s Medical Institutions are for-profit medical institutions under such Opinions.

Not-for-profit medical institutions are established and operated to serve the public interests mainly, and government-run not-for-profit medical institutions in particular shall provide basic medical services and completing other tasks assigned by the government. Government-run not-for-profit medical institutions are also entitled to enjoy specific financial subsidies and preferential tax policies for not-for-profit medical institutions, whilst for-profit medical institutions are not entitled to enjoy aforementioned specific financial subsidies and preferential tax policies and shall pay taxes in accordance with the applicable laws and regulations. In addition, not-for-profit medical institutions are required to implement government guideline pricing for their medical services, and the financial system and accounting policies shall abide relevant applicable laws and regulations, whilst for-profit medical institutions can operate independently and their pricing is not subject to aforementioned government guidelines, and their financial and accounting policies are regulated in line with other regular enterprises.

Law on the Promotion of Basic Medical Care, Hygiene and Health

Pursuant to the Law on the Promotion of Basic Medical Care, Hygiene and Health (基本醫療衛生與健康促進法), which was released by the Standing Committee of National People’s Congress (the “SCNPC”) on 28 December 2019 and came into effect on 1 June 2020, lawful registration and classified management for not-for-profit and for-profit medical institutions shall be implemented. Government-run medical institution shall not set up non-independent legal person medical institution with other organizations, nor cooperate with social capital to establish for-profit medical institutions. It also provides that the government will take measures to encourage and guide social resources to set up medical institution, and such institution will enjoy similar benefits as government-run institution, in certain areas including basic medical insurance coverage, research and teaching, access to specific medical technologies, and title assessment of medical staff, etc.

Administrative Measures for the Clinical Application of Medical Technologies

According to the Administrative Measures for the Clinical Application of Medical Technologies (醫療技術臨床應用管理辦法), which was promulgated by the National Health Commission (the “NHC”) on 13 August 2018 and took effect on 1 November 2018, a negative management system is established for the clinical application of medical technologies. More specifically, those listed on the negative list to be promulgated are deemed to be prohibited medical technologies and the clinical application of which is prohibited; certain medical technologies that are beyond the negative list but possess

certain prescribed characteristics are subject to strict record-filing management by the relevant health administrative department which require self-assessment of the medical technologies in question and submission of certain prescribed materials; and those medical technologies that are not categorized as prohibited or restricted medical technologies may be subject to clinical application by medical institutions according to their own functions, objectives, technical capabilities and so on and shall be strictly managed by the medical institutions themselves.

Regulations on the Aesthetic Medical Services

Administrative Measures for Aesthetic Medical Services

The Administrative Measures for Aesthetic Medical Services (醫療美容服務管理辦法), which was promulgated by the MOH on 22 January 2002, came into effect on 1 May 2002 and amended on 13 February 2009 and last amended by NHFPC and took effect on 19 January 2016, stipulates that aesthetic medical item shall be classified as first-level subject, aesthetic surgery, aesthetic dentistry, aesthetic dermatology and aesthetic Chinese medicine shall be classified as secondary subject. Medical practitioners of aesthetic medical services shall obtain the qualification license of aesthetic medical attending in-charge physician or provide aesthetic medical clinical services under supervision of licensed attending in-charge physician. Aesthetic medical attending in-charge physicians and personnel providing aesthetic medical nursing services shall meet relevant requirements. Provincial level health authorities may make additional requirements upon qualification review of aesthetic medical attending in-charge physician.

Classification Catalog of Aesthetic Medical Item

The Classification Catalog of Aesthetic Medical Item (醫療美容項目分級管理目錄), or the Classification Catalog, which was promulgated by the MOH on 11 December 2009 and came into effect on the same date, classifies aesthetic medical services into four categories: (i) aesthetic surgery items; (ii) aesthetic dentistry items; (iii) aesthetic dermatological items and (iv) aesthetic Chinese medicine items. Provincial-level counterparts of the MOH may adjust the catalog based on local circumstances. As for aesthetic surgery items, the aesthetic surgery items are divided into four grades in accordance with the difficulty and complexity of the surgery, the possibility of medical malpractice and the level of surgery risk. Surgeries which involve uncomplicated operation process, less technical difficulty and risk shall be classified as grade 1. Surgeries which involve general complexity of operation process, certain technical difficulty and risk, as well as requiring the use of epidural space block anesthesia and intravenous anesthesia, shall be classified as grade 2. Surgeries involving relatively high complexity of operation process, relatively huge technical difficulties and risk, as well as requiring the preoperative blood preparation because of trauma and tracheal intubation for general anesthesia, shall be classified as grade 3. If highly complicated operation process needed and huge technical difficulty and high risk involved, the surgeries shall be classified as grade 4. The Group currently provides periocular beauty procedures, double eyelid construction, lipofilling services and liposuction surgeries, which are classified as grade 1 surgeries accordingly. In addition, the Classification Catalog also provides that different grades of surgeries shall be performed by different level of medical institutions, medical institutions allowed to

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conduct grade 1 surgeries are out-patient departments equipped with medical cosmetology or plastic surgery departments or clinics equipped with medical cosmetology departments. The Group provides such grade 1 surgeries through relevant medical institutions accordingly.

Basic Standard for Aesthetic Medical Institution and Aesthetic Medical Department (For Trial Implementation)

The Basic Standard for Aesthetic Medical Institution and Aesthetic Medical Department (For Trial Implementation) (美容醫療機構、醫療美容科(室)基本標準(試行)), which was promulgated by the MOH on 16 April 2002 and came into effect on the same date, specifies basic standards that aesthetic medical hospitals, aesthetic medical out-patient departments, aesthetic medical clinics and aesthetic medical departments should meet, such as the number of beds, clinical departments and medical personnel. For each aesthetic medical clinic, it shall have at least two beds, and for each department in the clinic, it shall have at least one attending physician (主治醫師) and at least one nurse. As of the Latest Practicable Date, we had complied with the relevant legal requirements aforementioned.

Circular on Further Strengthening Comprehensive Regulatory Enforcement in the Aesthetic Medical Industry

On 3 April 2020, the SAMR, the NHC, National Medical Products Administration of the PRC (the “NMPA”), Office of the Central Cyberspace Affairs Commission (the “CCAC”), among others, jointly promulgated the Circular on Further Strengthening Comprehensive Regulatory Enforcement in the Aesthetic Medical Industry (關於進一步加強醫療美容綜合監管執法工作的通知) effective as of the same date, which stipulate that medical beauty services shall be implemented by the attending physician (主診醫師) or the practicing physician under the guidance of the attending physician in accordance with the registered medical beauty service items in the medical institutions that set up medical beauty related subjects. No organization or individual shall carry out medical beauty services without meeting the legal conditions. Medical beauty institutions shall purchase drugs and medical devices in enterprises with production and operation qualifications. Medical beauty advertisements belong to medical advertisements, and non-medical institutions shall not publish medical advertisements.

Special Rectification Work Plan for Cracking Down on Illegal Aesthetic Medical Services

On 28 May 2021, the SAMR, SATCM, NHC, NMPA, CCAC, among others, jointly promulgated the Notice of Special Rectification Work Plan for Cracking Down on Illegal Aesthetic Medical Services (關於印發打擊非法醫療美容服務專項整治工作方案的通告) effective as of the same date, which stipulate that in order to further safeguard the legitimate rights and interests of consumers and protect people’s health and life safety, the SAMR, SATCM, NHC, NMPA, CCAC, among others, are scheduled to carry out special rectification work against illegal aesthetic medical services nationwide from June to December 2021. The work tasks mainly include: (i) severely crack down on illegal activities related to aesthetic medical service, (ii) strictly standardize the behavior of aesthetic medical service, (iii) severely crack down on the illegal manufacture, sale of drugs and medical devices, and (iv) seriously investigate and prosecute illegal advertising and internet information.

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In June and August 2021, Shinan Aimei Medical Cosmetology Clinic of Qingdao Aimei Medical Cosmetology Co., Ltd and Shanghai Xiuke'er Outpatient Department Co., Ltd was each fined RMB1,000 by Qingdao Health Commission and Shanghai Huangpu District Health Commission, respectively. The fines were imposed as we engaged medical technician (i.e. a registered nurse) to implement treatment activity beyond their specialty, which included the provision of mesotherapy and laser treatments without the presence of a registered physician in the two instances. The acts were carried out by the registered nurses who considered themselves as qualified to implement relevant treatment activities due to the incorrect understanding of local policies and norms. We have promptly paid the fines imposed under the administrative penalties and has implemented internal policies (including compliance support systems, quality assurance systems, taking steps to review and confirm the qualifications of medical professionals upon them joining the Group and clearly documented duties and responsibilities for employees working in aesthetic medical service stores as well as subhealth assessment and intervention service stores) in place to minimize the risk of re-occurrence. The Company's PRC Legal Advisors are of the view that the two administrative penalties do not have a material adverse impact on the Company.

Guidelines on the Treatment of False Publicity and Illegal Pricing in the Aesthetic Medical Services Industry

On October 13, 2022, the Bureau of Price Supervision and Inspection and Anti-Unfair Competition of the State Administration for Market Regulation issued the Guidelines on the Treatment of False Publicity and Price Offences in the Aesthetic Medical Services Industry (醫療美容行業虛假宣傳和價格違法行為治理工作指引) (the "**Guidelines**"), to facilitate market supervision department to regulate the false publicity and illegal pricing behaviors of the aesthetic medical services industry in accordance with the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) (the "**Anti-Unfair Competition Law**"), the Pricing Law of the PRC (中華人民共和國價格法) (the "**Pricing Law**") and other relevant provisions.

According to the Guidelines, the business operators in the aesthetic medical services industry shall strictly abide by the Anti-Unfair Competition Law and shall not, in business marketing, make false or misleading representations to deceive or mislead consumers, damage the rights and interests of consumers or other business operators, jeopardize the order of fair competition, including: (i) shall not conduct false commercial publicity of the qualifications and honors of aesthetic medical services industry institutions, the qualifications of physicians and the efficacy of aesthetic medical products in the form of displaying, demonstration, explanation or promotion (the "**False Recommendation Commercial Publicity**") by using conferences, lectures, telephone calls, health consultation, door-to-door sales or other channels; (ii) shall not conduct False Recommendation Commercial Publicity in the business premises or on the occasions of information conferences, promotion meetings, trade fairs, exhibitions or other occasions; (iii) shall not conduct False Recommendation Commercial Publicity by using websites, self-media or other internet methods; (iv) shall not conduct false commercial publicity through false trading, organizing false trading, forging business data and information, false reservation, false panic buying and other marketing methods; (v) shall not conduct false commercial publicity through fabricating user evaluations, enticing users for

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favorable comments, using fictitious traffic data such as fictitious numbers of “collections”, “followers” and “likes” or other methods; (vi) shall not conduct false commercial publicity and fake marketing interactions through forging public praise by platform recommendations, online copywriting and other ways, or using live streaming in selling goods, fabricating topics, creating false public opinions and other ways; (vii) shall not conduct false commercial publicity through providing information other than the information that must be specified in the packaging, label or manual of aesthetic medical products in accordance with the relevant laws and regulations; (viii) shall not assist others to carrying out the false commercial publicity aforementioned.

Furthermore, it is stipulated in the Guidelines that the aesthetic medical services institutions should comply with the following pricing code of conduct in the provision of aesthetic medical services: (i) shall mark the main service items, service content and price or valuation method in a prominent position in the business premises, and shall mark the price explicitly by using electronic inquiry system; (ii) shall mark the price explicitly which is consistent with the pricing announcement in the business premises on web pages in words, images, etc., in the event of providing aesthetic medical services through WeChat public accounts, websites, etc., (iii) shall not increase the price beyond the listed price and shall not charge any fees not indicated; (iv) shall comply with the standard of clearly marked price if the online trading platform provides a price template for aesthetic medical services; (v) shall not commit price fraud by fictitious original price, false discount and other ways; (vi) shall not use low-price consumables as high-price consumables, shall not raise the fees through dispersing the charge items, repeating the charge, expanding the scope of charges and applying low-price medical items as high-price medical items etc.

Our Directors, as advised by our PRC Legal Advisers, confirm that as of the Latest Practicable Date, we had complied with all applicable provisions of the Guidelines, Anti-Unfair Competition Law and Pricing Law in all material aspects.

Measures for the Supervision and Administration of Pharmaceuticals in Medical Institutions (for Trial Implementation)

The Measures for the Supervision and Administration of Pharmaceuticals in Medical Institutions (for Trial Implementation) (醫療機構藥品監督管理辦法(試行)), promulgated by China Food and Drug Administration (the “CFDA”) and came into effect on 11 October 2011, stipulate that medical institutions must purchase pharmaceuticals from enterprises qualified for the production or distribution of pharmaceuticals and comply with certain standards in respect of the storage, dispensation and use of such pharmaceuticals. Pharmaceutical preparation dispensed by a medical institution must only be used by and for that medical institution. Medical institutions are prohibited from selling prescription pharmaceuticals to the public by such means as post, online transaction and open-shelf selection.

Laws and Regulations on Medical Personnel of Medical Institutions

Law on Medical Practitioners of the PRC

The Physicians Law of the PRC (中華人民共和國醫師法), promulgated by the Standing Committee of the National People's Congress on 20 August 2021 and came into effect on 1 March 2022, which replaced the Law on Medical Practitioners of the PRC (中華人民共和國執業醫師法), promulgated by the SCNPC on 26 June 1998 and came into effect on 1 May 1999 and last amended and took effect on 27 August 2009, and both regulations provide that physicians in the PRC must obtain qualification licenses for their medical profession. Qualified physicians and qualified assistant physicians must register with the relevant health administrative authorities at or above the county level. After registration, physicians may practice in their registered institution within the registered practicing categories and practicing scope. On 28 February 2017, the NHFPC promulgated the Administrative Measures for the Registration of Medical Practitioners (醫師執業註冊管理辦法) (the “**Medical Practitioners Registration Measures**”), which became effective on 1 April 2017, further stipulates that medical practitioners shall obtain the Practicing Certificate to practice upon registration, and provide in detail the requirements and procedures for the registration as well as the modifications to be made to such registration upon occurrence of certain prescribed circumstances.

Several Opinions on Accelerating the Development of Medical Institutions with Social Capital and Several Opinions on Promoting and Standardising Multi-Institution Practice of Medical Practitioners

Several Opinions on Accelerating the Development of Medical Institutions with Social Capital (關於加快發展社會辦醫的若干意見), jointly promulgated by the NHFPC and the SATCM and took effect on 30 December 2013, specifically stipulates that multi-institution practices of medical practitioners shall be permitted and relevant authorities should permit the orderly movements of the medical personnel among medical institutions of various sponsorships. The Notice on Printing and Distributing Several Opinions on Promoting and Standardising Multi-Institution Practice of Medical Practitioners (關於印發推進和規範醫師多點執業的若干意見的通知), jointly issued by the NHFPC, the NDRC, the Ministry of Human Resources and Social Security, the SATCM and the China Insurance Regulatory Commission on 5 November 2014, stipulates that the clinical, dental and traditional Chinese medicine practitioners are allowed to practise in multiple places. According to the Medical Practitioners Registration Measures, for any other institution in which the medical practitioner intends to practise, such medical practitioner shall apply to the health administrative authority for up the practice of such institution for separate recordation in which the name of such institution shall be indicated.

Regulations on Nurses

The Regulations on Nurses (護士條例), promulgated by the State Council on 31 January 2008 and came into effect on 12 May 2008 and last amended and took effect on 27 March 2020, provide that a nurse must obtain a Nurse's Practising Certificate (護士執業證書) which is valid for five years in order to practise. The number of practising nurses on duty at a medical institution shall not be less than the standard number as prescribed by the public health administrative authority of the State Council.

Administrative Measures for the Registration of Practising Nurses

Pursuant to the Administrative Measures for the Registration of Practising Nurses (護士執業註冊管理辦法) promulgated by the MOH on 6 May 2008 and became effective on 12 May 2008 and last amended and took effect on 8 January 2021 by NHC, nurses must register and obtain the Nurse Practising Certificate (護士執業證書) before they practise nursing at the registered practising place. Those who are not registered or have not obtained the Nurse Practising Certificate are not allowed to engage in nursing activities regulated by medical treatment standards.

Laws and Regulations Regarding Anti-Corruption, Anti-Unfair Competition and Anti-Commercial Bribery

The governmental departments of the PRC have formulated the relevant laws and regulations for standardizing the anti-corruption and anti-commercial bribery in medical treatment and health industry. In accordance with the Code of Conduct for Practitioners in Medical Institutions (醫療機構從業人員行為規範), which was promulgated jointly by the MOH, the CFDA and the SATCM on 26 June 2012, the practitioners in medical institutions shall perform their duties honestly, be self-disciplined, and shall abide by medical ethics.

The Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) issued by the SCNPC on 2 September 1993 and took effect on 1 December 1993 and last amended and took effect on 23 April 2019, provides certain measures to prevent unfair competition and protect market order, which includes, among others, prohibiting improper prize sale, dumping to crowd out market competitors. Pursuant to the Anti-Unfair Competition Law of the PRC, the business operator shall not bribe any staff of the counterparty, any entity or personnel that entrusted by the counterparty, or influence the entity or personnel of the counterparty using its power, for business opportunity or competitive edge. Furthermore, business operators may, in their transaction activities, explicitly give discount to a transaction counterparty, or pay commission to a middleman. When giving discount to a transaction counterparty or paying commission to a middleman, the business operator shall record the discount or commission in its accounts truthfully. Business operators who receive discount or commission shall also record the discount or commission in their accounts truthfully. Where the business operator bribes another person in violation of Article 7 of this Law. The regulatory authority may confiscate the income and impose a fine of more than RMB100,000 and less than RMB3 million depending on the seriousness, and revoke the business license in serious case. On 25 April 2021, nine national authorities, including the NHC, the SAMR, the MOFCOM, and the National Healthcare Security Administration, jointly issued the Key Points on

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Correcting the Malpractices in Purchase and Sale of Medicine and Medical Service in 2021 (2021年糾正醫藥購銷領域和醫療服務中不正之風工作要點) which took effect on the same date, stipulates, among others, that the inspection of invoice issued by medical institution shall be strengthened and severely punish the illegal activities such as commercial bribery to protect the market order.

Laws and Regulations on Medical Malpractice

PRC Civil Code

Pursuant to the PRC Civil Code (中華人民共和國民法典) which was promulgated by the National People's Congress (the "NPC") on May 28, 2020 and became effective on January 1, 2021, if a patient suffers damage in the course of diagnosis and treatment and the medical institution or its medical personnel are at fault, the medical institution shall bear the liability for compensation.

Regulations on Handling Medical Malpractice

The Regulations on Handling Medical Malpractice (醫療事故處理條例), which was promulgated by the State Council on 4 April, 2002 and came into effect on 1 September, 2002, provides a legal framework and detailed provisions regarding the prevention, technical identification, disposition, supervision, compensation and penalties of medical malpractice. For the purpose of the regulation, medical malpractice refers to an accident involving personal injury to patients caused by medical institutions or medical personnel due to malpractice as a result of violation of the laws, administrative regulations or departmental rules on medical and health administration, or of standards or procedures of medical treatment.

Regulations on Medical Advertising in the PRC

Advertisement Law of the PRC

The Advertisement Law of the PRC (中華人民共和國廣告法) (the "**Advertisement Law**"), which was promulgated by the SCNPC on 27 October 1994 and became effective on 1 February 1995 and latest amended and took effect on 29 April 2021, provides that advertisements shall not contain false statements nor be deceitful or misleading to consumers. Advertisements legally required to receive censorship, including those that are relating to medical, pharmaceuticals and medical devices, shall be examined by relevant authorities in accordance with relevant rules before being published, and the advertisements shall not be distributed without going through examination. Medical advertisements shall not contain: (i) any assertion or guarantee for efficacy or safety, (ii) any statement on cure rate or effective rate, (iii) comparison with other medical institutions, (iv) use of advertisement endorsers to make endorsements or testimonials; or (v) other items as prohibited by laws and administrative regulations.

Interim Measures for the Administration of Internet Advertisement

The Interim Measures for the Administration of Internet Advertisement (互聯網廣告管理暫行辦法), which was promulgated by the State Administration of Industry and Commerce (the “SAIC”) on 4 July 2016 and came into effect on 1 September 2016, provides that internet advertisements shall be identifiable and clearly identified as an “advertisement” so that consumers will identify it as such. Paid search advertisements shall be clearly distinguished from natural search results. It is prohibited to publish advertisements for prescription drugs and tobaccos via the Internet. No advertisement of any medical treatment, medicines, foods for special medical purpose, medical apparatuses, pesticides, veterinary medicines, dietary supplement or other special commodities or services which are subject to review by advertisement examination authorities as stipulated by laws and regulations shall be released unless it has passed such examination.

Administrative Measures on Medical Advertisement

The Administrative Measures on Medical Advertisement (醫療廣告管理辦法), jointly promulgated by the SAIC and the MOH on 27 September 1993, took effect on 1 December 1993, amended on 10 November 2006 and came into effect on 1 January 2007, requires that medical advertisements shall be reviewed by relevant health authorities and obtain a Medical Advertisement Examination Certificate (醫療廣告審查證明) before they may be released by a medical institution. Medical Advertisement Examination Certificate has an effective term of one year and may be renewed upon application.

Regulations on Environmental Protection Related To Medical Institutions

Regulation on the Administration of Pollutant Discharge Licensing

Regulation on the Administration of Pollutant Discharge Licensing (排污許可管理條例), which was promulgated by the State Council on 24 January 2021 and amended took effect on 1 March 2021 stipulate that the enterprises, public institutions and other production operators (the “**pollutant discharge entities**”) included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources shall apply for and obtain a pollutant discharge permit as per the prescribed time limit; and those are not included in the catalog are not required to do so for the time of being.

Pursuant to the Classified Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution (2019 Edition) (固定污染源排污許可分類管理名錄(2019年版)), which was promulgated by the Ministry of Ecology and Environment on 20 December 2019 and became effective on the same day, a pollutant discharge entity subject to registration management is not required to apply for a pollutant discharge permit. It shall fill in the pollutant discharge registration form on the management information platform of state pollutant discharge permits, and register with its basic information, pollutant discharge route, pollutant discharge standards implemented, pollution prevention, control measures adopted and other information.

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Regulations on the Management of Medical Waste and Its Implementation Measures

The Regulations on the Management of Medical Waste (醫療廢物管理條例), promulgated by the State Council on 16 June 2003 and came into effect on the same day and further amended and came into effect on 8 January 2011, and the Implementation Measures for the Management of Medical Waste of Medical and Health Institutions (醫療衛生機構醫療廢物管理辦法), promulgated by the MOH on 15 October 2003 and came into effect on the same day, stipulate that medical institutions must categorise the medical waste in accordance with the Classified Catalogue of Medical Waste (醫療廢物分類目錄) for management purpose and timely deliver medical waste to a medical waste disposal entity approved by the environmental protection administrative department at or above the county level for centralized disposal.

Regulations on Urban Drainage and Sewage Treatment

Enterprises that engage in the activities of industry, construction, catering, and medical treatment, etc. that discharges sewage into urban drainage facilities shall apply to the relevant competent urban drainage department for collecting the permit for discharging sewage into drainage pipelines under relevant laws and regulations, including the Regulations on Urban Drainage and Sewage Disposal (城鎮排水與污水處理條例), which was promulgated on 2 October 2013 and came into force on 1 January 2014, and the Measures for the Administration of Permits for the Discharge of Urban Sewage into the Drainage Network (城鎮污水排入排水管網許可管理辦法), which was promulgated on 22 January 2015 and came into force on 1 March 2015. Drainage entities covered by urban drainage facilities shall discharge sewage into urban drainage facilities in accordance with the relevant provisions of the state. Where a drainage entity needs to discharge sewage into urban drainage facilities, it shall apply for a drainage license in accordance with the provisions of these Measures. The drainage entity that has not obtained the drainage license shall not discharge sewage into urban drainage facilities.

Law on Prevention and Control of Water Pollution of the PRC

Pursuant to the Law on Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法) promulgated by the SCNPC on 11 May 1984 and became effective on 1 November 1984, amended on 15 May 1996 and came into effective on the same day, amended on 28 February 2008 and became effective on 1 June 2008, last amended on 27 June 2017 and became effective on 1 January 2018, the production and operation units must discharge water pollutants in accordance with national and local standards. If the amount of discharged water pollutants exceeds the national or local standards, the production and operation units will be imposed a fine equivalent to an amount between RMB100,000 and RMB1,000,000. In addition, the environmental protection authority is empowered to order the relevant production and operation units to restrict their production, or stop production for rectification, and in serious circumstances, the case will be reported to the competent government with approval authority to impose an order to suspend or shut-down its operation.

Environmental Impact Appraisal

According to the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例), which was promulgated by the State Council on 29 November 1998 and came into force on the same date, amended on 16 July 2017 and became effective on 1 October 2017, depending on the impact of the construction project on the environment, an construction employer shall submit an environmental impact report or an environmental impact statement, or file a registration form. As to a construction project, for which an environmental impact report or the environmental impact statement is required, the construction employer shall, before the commencement of construction, submit the environmental impact report or the environmental impact statement to the relevant authority at the environmental protection administrative department for approval. If the environmental impact assessment documents of the construction project have not been examined or approved upon examination by the approval authority in accordance with the law, the construction employer shall not commence the construction.

According to the Environmental Impact Appraisal Law of PRC (中華人民共和國環境影響評價法), which was promulgated by the SCNPC on 28 October 2002, took effect on 1 September 2003, last amended took effect on 29 December 2018, for any construction projects that have an impact on the environment, an entity is required to produce either a report, or a statement, or a registration form of such environmental impacts depending on the seriousness of effect that may be exerted on the environment.

Regulatory Developments on the Aesthetic Medical Services

The PRC government authorities have taken steps to crack down illegal activities in the aesthetic medical industry that the medical institutions may apply when providing aesthetic medical services, including, among others, the promulgation of the Circular on Further Strengthening Comprehensive Regulatory Enforcement in the Aesthetic Medical Industry (關於進一步加強醫療美容綜合監管執法工作的通知) and the Notice of Special Rectification Work Plan for Cracking Down on Illegal Aesthetic Medical Services (關於印發打擊非法醫療美容服務專項整治工作方案的通知). For details, please refer to “Regulations Relating To Medical Services — Regulations on the Aesthetic Medical Services” in this section.

As confirmed by our PRC Legal advisers, our current practice in aesthetic medical services were in compliance with relevant rules and regulations in material respects as of the Latest Practicable Date, and the Company has not been subject to any penalties or administrative measures that have material adverse impact on our business operations in provision of aesthetic medical services during the Track Record Period and up to the Latest Practicable Date. We will continue to take necessary measures, and do not foresee any material impediments, in meeting the relevant compliance requirements under relevant rules and regulations in the PRC, as well as closely monitor the regulatory development and adjust our business operations from time to time to comply with the regulations if needed. On the foregoing basis, our Directors and PRC Legal Advisers are of the view that the regulations in aesthetic medical services, including those recent regulatory updates, will not have a material adverse effect on our business, financial

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condition, and results of operations, or to proposed Listing. In light of the above and having discussed with the management of the Company, the PRC Legal Advisers and the Industry Consultant of the Company Frost & Sullivan on the aforementioned recent regulatory developments, the Joint Sponsors are of the view that the latest developments on aesthetic medical industry in the PRC as of the Latest Practicable Date would not have any material adverse effect to Company's proposed Listing.

REGULATIONS RELATING TO TRADITIONAL BEAUTY SERVICE PROVIDERS

Regulations stipulated below are in relation to the Group's provision of traditional beauty services. For further details of the Company's compliance status of the relevant rules and regulations, please refer to the section headed "Business — Compliance, Licenses and Permits" in this prospectus.

Hygiene Permit

According to the Regulations on Health Management in Public Venues (公共場所衛生管理條例) promulgated by the State Council and took effect on 1 April 1987, last amended on 23 April 2019 and came into effect on the same date, public venues such as hotels, restaurants, barber shops and beauty shops shall apply to the administrative department of public health for a hygiene permit in time, and shall meet certain hygiene and health standards including air and microclimate (humidity, temperature and wind speed), water quality, natural light, illumination, noise, customer appliances and sanitary facilities.

Food Operation License

The PRC Food Safety Law (中華人民共和國食品安全法), which issued on 28 February 2009, became effective on 1 June 2009 and most recently amended by the SCNPC and took effect on 29 April 2021, has adopted a licensing system for food sales or catering services. According to the Administrative Measures for Food Operation Licensing (食品經營許可管理辦法), promulgated by the CFDA on 31 August 2015, came into effect on 1 October 2015, and last amended and took effect on 17 November 2017, food operation operators shall obtain the food operation license for each business venue where they engage in food operation activities. The food operation license is valid for five years. Furthermore, the PRC implements strict supervision and administration for special categories of foods such as healthcare food, special formula foods for medical purposes and infant formula.

OTHER REGULATIONS RELATING TO DOING BUSINESS IN CHINA

Regulations stipulated below are in relation to other perspectives of the Group's operation and doing business in China as a whole. For further details of the Company's compliance status of the relevant rules and regulations, please refer to the section headed "Business — Compliance, Licenses and Permits" in this prospectus.

Fire Prevention Design and Acceptance

The Fire Prevention Law of the PRC (中華人民共和國消防法) (the “**Fire Prevention Law**”) was adopted on 29 April 1998 and last amended and took effect on 29 April 2021. According to the Fire Prevention Law, for special construction projects stipulated by the housing and urban-rural development authority of the State Council, the developer shall submit the fire safety design documents to the housing and urban-rural development authority for examination, while for construction projects other than those stipulated as special development projects, the developer shall, at the time of applying for the construction permit or approval for work commencement report, provide the fire safety design drawings and technical materials which satisfy the construction needs. According to the Regulations on the Supervision and Administration of Fire Prevention in Construction projects (建設工程消防監督管理規定), which was promulgated by the Ministry of Public Security of the PRC on 17 July 2012 and terminated on 1 June 2020, an examination system for fire prevention design and acceptance only applies to the densely populated places and the special construction projects, and for other projects, a record-filing of fire prevention design and acceptance and spot check system would be applied. According to Interim Regulations on Administration of Examination and Acceptance of Fire Control Design of Construction Projects (建設工程消防設計審查驗收管理暫行規定), which was promulgated by the Ministry of Housing and Urban-Rural Development on 1 April 2020 and came into effect on 1 June 2020, an examination system for fire prevention design and acceptance only applies to special construction projects, and for other projects, a record-filing and spot check system would be applied. A construction project with one of the following situations shall be deemed as a special construction project: an outpatient building of a hospital with a total floor area of more than 2,500 square meters, or the ward building of a hospital or sanatorium with a total floor area of more than 1,000 square meters, etc.

In addition, the Fire Prevention Law requires that before any public venues that allows the gathering of people are put into business operation, as required according to applicable requirements, the developer or the users shall apply to competent authorities to conduct a fire safety inspection of the premises to obtain the Fire Safety Inspection Certificates.

Laws and Regulations Related To Cybersecurity and Personal Information or Data Protection

Pursuant to the Regulations for Medical Institutions on Medical Records Management (醫療機構病歷管理規定) released on 20 November 2013, and effective from 1 January 2014, the medical institutions and medical practitioners shall strictly protect the privacy information of patients, and any leakage of patients’ medical records for non-medical, non-teaching or non-research purposes is prohibited.

The NHFPC released the Measures for Administration of Population Health Information (Trial) (人口健康信息管理辦法(試行)) on 5 May 2014, which refers the medical health service information as the population healthcare information, and emphasizes that such information cannot be stored in offshore servers, and servers shall not be hosted or leased outside the territory of mainland China.

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On 7 November 2016, the SCNPC promulgated the Cybersecurity Law, which became effective on 1 June 2017. The Cybersecurity Law mainly focuses on the security of network operation and network information. It applies to “Network Operators”. “Network Operators” refers to network owners, managers, and network service providers. The Cybersecurity Law requires network operators to comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. The Cybersecurity Law further requires network operators to take all necessary measures in accordance with applicable laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to cybersecurity incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. In addition, operators of “Critical Information Infrastructure” (“CII”) are subject to the Cybersecurity Law. However, the scope of CII is broad, including public communication and information services, power, traffic, water resources, finance, public service, e-government, and other critical information infrastructure which—if destroyed, suffering a loss of function, or experiencing leakage of data—might seriously endanger national security, national welfare, the people’s livelihood, or the public interest. The State Council will formulate the specific scope and security protection measures for critical information infrastructure. The Cybersecurity Law also provides that, to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected, except where it has been processed in such a manner that it is impossible to identify a particular individual and the information cannot be recovered.

On 28 May 2020, the National People’s Congress adopted the Civil Code of the PRC, which came into effect on 1 January 2021. Pursuant to the Civil Code of the PRC, the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

On 10 June 2021, the SCNPC passed the Data Security Law, which became effective as of 1 September 2021. The Data Security Law is broadly applicable to and will impact all operators that engage in the processing of all types of data. The Data Security Law defines data as any record of information in electronic or other forms. The Data Security Law introduces the new concept of national core data—data related to national security, the lifeline of the national economy and people’s livelihoods and that is important to major public interests. The Data Security Law further requires that important data will be

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subject to stricter management and protection requirements. The Data Security Law authorizes the national data security coordination mechanism to coordinate with the relevant departments to formulate an important data catalogue at the national level, and different administrative regions and industrial sectors to formulate their own specific important data catalogues. The Data Security Law imposes a set of data security compliance obligations on entities conducting data processing activities, including: establish comprehensive data security management systems, organize data security trainings, and implement necessary measures to ensure data security; strengthen risk monitoring, promptly notify users and authorities of security incidents and take remedial actions when discovering a security incident or defect; regularly conduct risk assessments.

On 20 August 2021, the SCNPC passed the Personal Information Protection Law, or the PIPL, which took effect on 1 November 2021. The PIPL defines personal information as all kinds of information, recorded by electronic or other means, related to identified or identifiable natural persons, not including information after anonymization. The law mandates additional protections for “sensitive personal information,” defined as personal information that, once disclosed or illegally used, is likely to infringe the human dignity of natural persons or endanger the personal and property safety, including biometrics, religious beliefs, specific identity, medical health, financial accounts, whereabouts and other information, as well as the personal information of minors under the age of 14. When processing “sensitive personal information,” processors must only use information necessary to achieve the specified purpose of the collection, adopt strict protective measures, and obtain the data subjects’ specific consent. Processing personal information shall follow the principles of legality, legitimacy, necessity, good faith, transparency, and accuracy and completeness, and shall have a clear and reasonable purpose, be directly related to the processing purpose, and adopt the method that has the minimum impact on personal rights and interests. Processors shall take necessary measures to ensure the security of the personal information processed. The PIPL stipulates that processors may process personal information only after obtaining fully informed consent in a voluntary and explicit statement. PIPL mandates that processors keep the personal information only for the shortest period of time necessary to achieve the original purpose of the collection. Except consent, the PIPL also set forth certain legal bases of processing personal information where obtaining consent is unnecessary: where necessary to conclude or fulfill a contract in which the individual is an interested party, or where necessary to conduct human resources management according to lawfully formulated labor rules and structures and lawfully concluded collective contracts; where necessary to fulfill statutory duties and responsibilities or statutory obligations, etc. Processors’ obligations under the PIPL also includes: develop internal management systems and operating procedures; implement categorized management of personal information; take appropriate security technical measures such as encryption and de-identification; reasonably determine the operating permission for personal information processing, develop and organize the implementation of emergency plans for personal information security incidents; conduct personal information protection impact assessment in advance under certain circumstances; and take other measures as prescribed by laws and administrative regulations.

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On 14 November 2021, the CAC published a discussion draft of Regulations on the Administration of Cyber Data Security (Draft for Comments) (網絡數據安全管理條例 (徵求意見稿)) (the “**Draft Data Security Regulations**”), which regulates the specific requirements in respect of the data processing activities conducted by data processors through internet in the view of personal data protection, important data safety, data cross-broader safety management and obligations of internet platform operators. The Draft Data Security Regulations also requires that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) overseas listings of data processors processing over one million users’ personal information; (iii) listings in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. There have been no clarifications from the authorities as of the Latest Practicable Date as to the standards for determining such activities that “affects or may affect national security”. Since the Draft Regulations have not become effective yet, the Draft Regulations (especially its operative provisions) and its anticipated adoption or effective date are subject to further changes with substantial uncertainty.

On December 28, 2021, the CAC and other twelve PRC regulatory authorities jointly revised and promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》), or the Cybersecurity Review Measures, which came into effect on February 15, 2022. The Measures for Cybersecurity Review (《網絡安全審查辦法》) which took effect on June 1, 2020 will be abolished at the same time. The Cybersecurity Review Measures requires that critical information infrastructure operators (the “**CIIOs**”) that purchase network products and services shall anticipate the potential national security risk of products and services after they enter operation. If they affect or may affect national security, the CIIOs shall apply for cybersecurity review to the Cybersecurity Review Office. On July 30, 2021, the State Council promulgated the Critical Information Infrastructure Security Protection Regulations (“**Critical Information Infrastructure Regulations**”), effective from September 1, 2021. According to Critical Information Infrastructure Regulations, Critical information infrastructure refers to important network infrastructure, information systems, etc., in important industries and sectors such as public telecommunications and information services, energy, transportation, water, finance, public services, e-government, national defense science, technology, and industry, etc., as well as where their destruction, loss of functionality, or data leakage may gravely harm national security, the national economy and people’s livelihood, or the public interest. According to the Critical Information Infrastructure Regulations, protection work departments are responsible for organizing the identification of CII within their industries and sectors and notifying operators about the identification results. As of the Latest Practicable Date, the responsible authorities had not promulgated any implementation provisions or identification rules of CIIOs and we had not received any notification from relevant regulatory authorities regarding our identification as a CIIO, nor had we been subject to or involved in any cybersecurity review or received any investigation, inquiry, notice, warning or sanctions made by the CAC on such basis. As advised by Tian Yuan Law Firm, the obligation for CIIOs to proactively apply for cybersecurity review shall not be applicable to us as of the Latest Practicable Date. In addition, Network Platform Operators holding personal information of more than 1 million users that seek for listing in a foreign

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country are obliged to apply for a cybersecurity review by the Cybersecurity Review Office. As advised by Tian Yuan Law Firm, given the fact that, we processed personal information of less than 1 million users as of the Latest Practicable Date, as well as the differentiation made by Article 13 of the Draft Regulations by the CAC which clarifies that “listing in a foreign country” does not include “listing in Hong Kong”, the obligations under the Cybersecurity Review Measures to proactively apply for cybersecurity review by a network platform operator seeking listing in a foreign country shall not be applicable to the proposed listing in Hong Kong.

Tian Yuan Law Firm has advised that substantial uncertainties exist with respect to the interpretation and applicability of the Cybersecurity Review Measures and the Draft Regulations on Network Data Security Management, especially the criteria of determining the risks that “affects or may affect national security”. Considering the nature of our business, and based on the literal interpretation of the State Security Law and relevant laws and regulations, our Directors and Tian Yuan Law Firm are of the view that, under the Cybersecurity Review Measures and the Draft Regulations on Network Data Security Management, if enacted as its current form, the likelihood of the data processing activities during the course of our business operations and the proposed Listing being classified as one that affects or may affect national security is relatively low and the likelihood that we will be subject to cybersecurity review for the proposed Listing is relatively low, nevertheless, it is ultimately subject to the review by regulatory authorities on a case-by-case basis.

Our Directors and Tian Yuan Law Firm are of the view that, they do not foresee any material impediments for us to comply with the Cybersecurity Review Measures in all material respects, on the basis that (i) as of the Latest Practicable Date, there has been no material cybersecurity, data and personal information protection incidents or infringement upon any third parties, or other administrative or legal proceedings, pending or, to the best of the knowledge of us, threatened against or relating to us; (ii) as of the Latest Practicable Date, we have not been subject to any material administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to cybersecurity, data and personal information protection, nor have we been subject to or involved in any investigations, or received any inquiry, examination, warning, interview, or similar actions in such respect by relevant competent regulatory authorities; (iii) we have taken appropriate and necessary internal control measures, policies and procedures that include risk controls involved in the cybersecurity, data and personal information risk management processes, including without limitation, user file archiving management, recovery testing on business system and user interfaces, access control, data backup, database recovery, emergency response mechanism, and vendors management; (iv) we have set up a department responsible for cybersecurity and data protection, which closely monitors the legislative and regulatory development in cybersecurity, data and personal information protection to implement and continually improve our compliance practices to comply with the latest regulatory requirements in such respects, including, among others, the Cybersecurity Review Measures.

Based on the above analysis and as advised by Tian Yuan Law Firm, our Directors are of the view that the Cybersecurity Review Measures would not have a material adverse impact on our business operations and the proposed Listing in Hong Kong on the

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following basis: (i) as analyzed above that we not foresee any material impediments for us to comply with the Cybersecurity Review Measures in all material respects; (ii) the fact we have not received any objection to the proposed Listing from relevant regulatory authorities, nor have we been involved in any investigation, official inquiry, examination, warning, or similar notice in such respect as of the Latest Practicable Date; and (iii) if we need to apply for the cybersecurity review according to applicable regulations, we will apply for the cybersecurity review in due course.

On 7 July 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) (the “**Measures on Security Assessment of Cross-border Data Transfer**”), which became effective on 1 September 2022. These Measures outline the requirements and procedures for security assessments on export of important data or personal information collected within the territory of mainland China. More specifically, these Measures provide that any of the circumstances below will require security assessment before any cross-border data transfer out of mainland China can occur: (i) a data processor provides important data out of mainland China; (ii) a critical information infrastructure operator or a data processor processing the personal information of more than one million individuals provides personal information out of mainland China; (iii) a data processor, who has cumulatively provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals out of mainland China since January 1 of the previous year, provides personal information out of mainland China; or (iv) under other circumstances as stipulated by the CAC. The data processing entities need to carry out a self-assessment before they can apply through provincial CACs for a security assessment to be carried out and approved by the CAC at the central level.

Regulations on Protection of Consumers

On 25 October 2013, the SCNPC promulgated the Law of the PRC on the Protection of Rights and Interests of Consumers (中華人民共和國消費者權益保護法), effective as of 15 March 2014, which specifies the consumer rights, obligations of business operators, protection of legitimate consumer rights and interests by the state, legal liability of business operators, etc. Particularly, business operators providing goods or services by way of advance payment shall provide goods or services pursuant to the agreement. Where the goods or services are not provided pursuant to the agreement, the business operator shall perform the agreement as required by the consumer or refund the advance payment and bear the interest on advance payment and reasonable expenses incurred by the consumer.

Regulations Relating to Pricing

In China, the prices of a few numbers of products and services are set by the government. According to Pricing Law of the PRC (中華人民共和國價格法), or the Pricing Law, promulgated on December 29, 1997, which became effective on May 1, 1998, operators must, as required by the government departments in charge of pricing, mark the prices explicitly and indicate the service items, pricing structures and other related standards clearly. Operators may not charge any fees that are not explicitly indicated. Operators must not commit unlawful pricing activities, such as colluding with others to

manipulate the market price, using false or misleading prices to deceive consumers, or conducting price discrimination against other business operators. Failure to comply with the Pricing Law may subject business operators to administrative sanctions such as warning, ceasing unlawful activities, requiring compensation, confiscating illegal gains, fines. The business operators may be ordered to suspend business for rectification or having their business licenses revoked if the violations are severe.

Laws and Regulations Related to Intellectual Property Rights

Trademark

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法) which became effective on 1 March 1983, and was last amended on 23 April 2019 and took effect on 1 November 2019, and the Regulation for the Implementation of Trademark Law of the PRC (中華人民共和國商標法實施條例) which became effective on 15 September 2002 and was amended on 29 April 2014 and took effect on 1 May 2014, the Trademark Office of the administrative department for industry and commerce under the State Council is responsible for the registration and administration of trademarks in the PRC. A trademark registrant enjoys an exclusive right to the trademark. A trademark registrant may, by entering into a trademark licensing contract, license another party to use its registered trademark. Where another party is licensed to use a registered trademark, the licensor shall report the license to the Trademark Office for recordation, and the Trademark Office shall publish the same. An unrecorded license may not be used as a defence against a third party in good faith.

Patents

According to the Patent Law of the PRC (中華人民共和國專利法), promulgated by the SCNPC on 12 March 1984, took effect on 1 April 1985, last amended on 17 October 2020 and came into effect on 1 June 2021 and the Implementing Rules of the Patent Law of the PRC (中華人民共和國專利法實施細則), promulgated by the China Patent Bureau Council on 19 January 1985, and last amended on 9 January 2010 by State Council and came into effect on 1 February 2010, the term “invention-creations” refers to inventions, utility models and designs. The duration of a patent right for inventions shall be 20 years, the duration of a patent right for utility models shall be 10 years and the duration of a patent right for design shall be 15 years, all commencing from the filing date. In the event that a dispute arises due to a patent being exploited without the prior authorization of the patentee, that is to say an infringement upon the patent right of the patentee.

Domain Names

In accordance with the Measures for the Administration of Internet Domain Names (互聯網域名管理辦法) which was issued by the Ministry of Industry and Information Technology of the PRC on 24 August 2017 and came into effect on 1 November 2017, the Ministry of Industry and Information Technology of the PRC is responsible for supervision and administration of domain name services in the PRC. Communication administrative bureaus at provincial levels shall conduct supervision and administration of the domain name services within their respective administrative jurisdictions. Domain

name registration services shall, in principle, be subject to the principle of “first apply, first register”. A domain name registrar shall, in the process of providing domain name registration services, ask the applicant for which the registration is made to provide true, accurate and complete identity information on the holder of the domain name and other domain name registration related information.

Laws and Regulations Related to Foreign Investment in the PRC

Foreign Invested Entities and Foreign Investment

The establishment, operation, and management of companies in the PRC is governed by the PRC Company Law (中華人民共和國公司法), which was promulgated by the SCNPC, on 29 December 1993, effective from 1 July, 1994 and most recently amended on 26 October 2018. The PRC Company Law shall apply to foreign-invested companies unless laws on foreign investment have other stipulations.

On 15 March 2019, the NPC, promulgated the PRC Foreign Investment Law (中華人民共和國外商投資法), which came into effect on 1 January 2020 and replaced the previous laws regulating foreign investment in the PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law of PRC (中華人民共和國中外合資經營企業法), the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC (中華人民共和國中外合作經營企業法) and the Wholly Foreign-invested Enterprise Law of the PRC (中華人民共和國外資企業法), together with their implementation rules and the ancillary regulations.

According to the PRC Foreign Investment Law, foreign investment shall enjoy pre-entry national treatment, except for those fall within the “restricted” or “prohibited” categories, which are principally stipulated in the Special Administrative Measures (Negative List) for Access of Foreign Investment (2021 Edition) (外商投資准入特別管理措施(負面清單)(2021年版)) which came into effect on January 1, 2022, or the Negative List. Other laws and regulations may also set restrictions on foreign investment in the PRC.

Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions

The Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), which was promulgated by MOH and the Ministry of Foreign Trade and Economic Cooperation on 15 May 2000 and came into effect on 1 July 2000, allow foreign investors to partner with Chinese entities to establish a medical institution in China by means of equity joint venture or cooperative joint venture. Establishment of equity joint venture or cooperative joint venture shall meet certain requirements, including the total investment sum shall not be less than RMB20 million and the equity percentage of the Chinese partner in the joint venture shall not be less than 30%. Establishment of equity joint venture or cooperative medical institutions shall be subject to approval by relevant authorities.

Regulations Relating to the Importation and Exportation of Goods

According to the Administrative Provisions of the Customs of the People's Republic of China on the Filing of Customs Declaration Entities (《中華人民共和國海關報關單位備案管理規定》) promulgated by the General Administration of Customs of China, or GACC, on November 19, 2021 and took effect on January 1, 2022, customs declaration entities may conduct customs declaration business within the customs territory of the PRC and customs declaration entities refer to consignees or consignors of imported or exported goods or customs declaration enterprises that have filed for record with the Customs in accordance with the provisions. Such consignors or consignees or customs declaration enterprises shall obtain market entity qualifications and in the case of consignors or consignees applying for record-filing, they shall also complete the record-filing formalities for foreign trade dealers.

Regulations on the Management of Lease Housing

Administrative Measures on Leasing of Commodity Housing

Pursuant to (i) the Law on Administration of Urban Real Estate of the PRC (中華人民共和國城市房地產管理法), promulgated by the SCNPC on 5 July 1994 and was amended on 27 August 2009 and 26 August 2019 and took effect on 1 January 2020, and (ii) the Administrative Measures on Leasing of Commodity Housing (商品房屋租賃管理辦法), promulgated by the Ministry of Housing and Urban-Rural Development on 1 December 2010 and came into effect on 1 February 2011, when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair responsibility, and other rights and obligations of both parties. Both lessor and the lessee shall complete property leasing registration and filing formalities within 30 days from the execution of the property lease contract with the real estate administration department where the leased property is located. If the lessor and lessee fail to go through the registration and filing procedures, both lessor and lessee may be subject to fines.

Laws and Regulations Related to Labour Protection

According to the (i) Labour Law of the PRC (中華人民共和國勞動法) took effect on 1 January 1995 and last amended on and took effect on 29 December 2018, (ii) the Labour Contract Law of the PRC (中華人民共和國勞動合同法) took effect on 1 January 2008 and last amended on 28 December 2012 and took effect on 1 July 2013, and (iii) the Regulations on the Implementation of the Labour Contract Law of the PRC (中華人民共和國勞動合同法實施條例) issued and became effective on 18 September 2008, an employer must enter into a written labour contract with any employees and the wage or salary must not be lower than the local minimum wage or salary. In addition, an employer must establish a system related to occupation health and safety, provide job training for employees to avoid occupational hazards and protect the rights of employees. When an employer recruits any employees, such employer must inform the employees of the work content, work conditions, work place, occupational hazards, safety conditions and labour compensations.

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According to (i) the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was implemented on 1 July 2011 and amended and took effect on 29 December 2018, (ii) the Provisional Regulations on Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), issued and took effect on 22 January 1999 and revised and took effect on 24 March 2019, (iii) the Provisional Measures on Maternity Insurance of Enterprise Employees (企業職工生育保險試行辦法), issued on 14 December 1994 and took effect 1 January 1995, (iv) the Regulations on Unemployment Insurance (失業保險條例), issued and effective on 22 January 1999, and (v) the Regulations on Work Related Injuries Insurance (工傷保險條例), took effect on 1 January 2004 and amended on 20 December 2010 and took effect on 1 January 2011, an employer must make contributions to a number of social security funds for its employees, including the basic pension insurance, basic medical insurance, maternity insurance, unemployment insurance and work-related injury insurance. According to the Regulations on Management of Housing Provident Fund (住房公積金管理條例), took effect on 3 April 1999 and last amended and took effect on 24 March 2019, an employer must open a housing fund account with the department responsible for the management of housing fund for its employees and make contributions to such housing fund.

Laws and Regulations Related to Taxation

Enterprise Income Tax

According to (i) the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”), which was promulgated by the National People’s Congress on 16 March 2007 and came into effect on 1 January 2008, and further amended on 24 February 2017 and last amended and took effect on 29 December 2018, and (ii) the Implementation Regulations on the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “**PRC EIT Rules**”), which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008 and last revised and took effect on 23 April 2019, the tax rate for both domestic-funded enterprises and foreign-invested enterprises is 25%. Under the EIT Law and PRC EIT Rules, enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and subject to the uniform 25% PRC EIT rate for their global income. According to the PRC EIT Rules, a “de facto management body” refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. Dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free income, excluding the dividends, bonuses and other equity investment proceeds obtained by continuously holding the shares publicly issued and listed and circulating by resident enterprises for less than 12 months.

The EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose “de facto management bodies” are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. PRC EIT Rules provide that after 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-resident enterprise investors which do not

have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business, to the extent such dividends are derived from source within the PRC. Pursuant to the Notice on the Several Issues of the Implementation of Dividend Clauses in Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on 20 February 2009, the income tax on the dividends may be reduced pursuant to a tax treaty between the PRC and the jurisdiction in which the non-resident enterprise investors is located if the non-resident enterprise investor is determined by the competent PRC tax authority to have satisfied relevant conditions and requirements.

The Announcement on Several Issues Concerning the Enterprise Income Tax on Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “**SAT Circular 7**”) was issued by the SAT on 3 February 2015 and last amended on 29 December 2017, provides comprehensive guidelines heightening the PRC tax authorities’ scrutiny on, indirect transfers by a non-resident enterprise of assets, including assets of organizations and premises in PRC, immovable property in the PRC, equity investments in PRC resident enterprises. On 17 October 2017, the SAT issued the Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (關於非居民企業所得稅源泉扣繳有關問題的公告), which took effect on 1 December 2017 and amended on 15 June 2018, the balance after deducting the equity net value from the equity transfer income shall be the taxable income amount for equity transfer income.

Under the SAT Circular 7 and the Law of the PRC on the Administration of Tax Collection (中華人民共和國稅收徵收管理法), which was promulgated by the SCNPC on 4 September 1992, took effect on 1 January 1993 and last amended and took effect on 24 April 2015, in the case of an indirect transfer, entities or individuals obligated to pay the transfer price to the transferor shall act as withholding agents. If they fail to make withholding or withhold the full amount of tax payable, the transferor of equity shall declare and pay tax to the relevant tax authorities within seven days from the occurrence of tax payment obligation.

Tax Treaties

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排)(the “**Tax Treaty**”) entered into between Mainland China and HKSAR on 21 August 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends once approvals have been obtained from the relevant tax authorities.

Pursuant to the Notice on the Several Issues of the Implementation of Dividend Clauses in Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on 20 February 2009, the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for

enjoying a lower withholding tax rate under a tax treaty. Pursuant to the Administrative Measures for Tax Treaty Treatment for Non-resident Taxpayers (非居民納稅人享受稅收協定待遇管理辦法), which was promulgated by the SAT on 27 August 2015 and amended on 15 June 2018, and further replaced by the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (國家稅務總局關於發佈《非居民納稅人享受協定待遇管理辦法》的公告), which took effect on 1 January 2020, any non-resident taxpayer satisfying the conditions for enjoying the tax treaty treatment may be entitled to the tax treaty treatment on its own when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

The Announcement of the State Administration of Taxation on Issues Relating to “Beneficial Owner” in Tax Treaties (國家稅務總局關於稅收協定中“受益所有人”有關問題的公告) issued by the SAT on 3 February 2018 and came into effect on 1 April 2018, provides that the “beneficial owner” shall mean a person who has the ownership and control over the income and the rights and property from which the income is derived. When an individual who is a resident of the treaty counterparty derive dividend income from the PRC, the individual may be determined as a “beneficial owner”.

Value-Added Tax

The Interim Provisions on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and last amended and took effect on 19 November 2017, and the Implementing Rules of the Interim Provisions on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例實施細則), promulgated by the MOF and became effective on 25 December 1993, and last amended on 28 October 2011 and took effect on 1 November 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in the PRC shall pay a value-added tax. The tax rate for taxpayers engaging in the sales of goods, labour services, tangible movables lease services or the importation of goods shall be 17% and the tax rate for sales of services and intangible assets shall be 6%, unless otherwise stipulated.

According to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (營業稅改徵增值稅試點方案), which was promulgated by the MOF and the SAT on 16 November 2011, the government launched gradual taxation reforms starting from 1 January 2012, whereby it collected value-added tax in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

Furthermore, according to the Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), promulgated on 23 March 2016, took effect on 1 May 2016 and amended on 11 July 2017 and 20 March 2019, respectively, all business tax payers in consumer service industry shall pay value-added tax in lieu of business tax from 1 May 2016 and the medical service provided by the medical institution could be the exempted from value-added tax.

Laws and Regulations Over Foreign Exchange

The Regulations on the Control of Foreign Exchange of the PRC (中華人民共和國外匯管理條例), which was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was last amended and took effect on 5 August 2008, set out that foreign exchange receipts of domestic institutions or individuals may be remitted back to the PRC or deposited abroad and that SAFE shall specify the conditions relating to the requirements, time periods and other aspects of such remittance and deposits in accordance with the international receipts, payments status and requirements of foreign exchange administration. Domestic institutions or individuals that make direct investments abroad or are engaged in the distribution or sale of valuable securities or derivative products overseas shall register according to SAFE regulations. Such institutions or individuals subject to prior approval or record-filing with other competent authority shall complete the required approval or record-filing prior to foreign exchange registration. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

The Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定), which was promulgated by the People's Bank of China on 20 June 1996 and came into effect on 1 July 1996, provides that foreign exchange earnings under the current account of FIEs may be retained to the fullest extent specified by the relevant foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap centre.

On 30 March 2015, the SAFE promulgated the Notice on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (關於改革外商投資企業外匯資本金結匯管理方式的通知) (the “**Circular 19**”), which came into effect on 1 June 2015. According to Circular 19, the foreign exchange capital of FIEs shall be subject to the discretionary foreign exchange settlement (the “**Discretionary Foreign Exchange Settlement**”) and its proportion is temporarily determined as 100%. Furthermore, Circular 19 stipulates that the use of capital by FIEs shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of an FIE and capital in RMB obtained by the FIE from foreign exchange settlement shall not be used for certain purposes as prescribed in the Circular 19. On 9 June 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (關於改革和規範資本項目結匯管理政策的通知) (the “**SAFE Circular 16**”). The SAFE Circular 16 unifies policies on discretionary settlement of foreign exchange receipts under capital accounts of domestic institutions.

Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), which was issued and took effect on 4 July 2014, provides that domestic residents shall register with the SAFE and its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and

financing, with assets or equity interests of onshore companies or offshore assets or interests held by the domestic residents, before contributing the onshore or offshore legal assets or interests to the offshore entity. Following the initial registration, any change of basic information such as individual shareholder, name and term of operation or upon capital increase or deduction, equity transfer or swap, merger or division and other significant change, shall report to the SAFE for foreign exchange alteration of the registration formality for offshore investment in time.

The Notice on Further Simplifying and Improving Foreign Exchange Administration Policies in Respect of Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), which was issued on 13 February 2015, took effect on 1 June 2015 and partially abolished in 30 December 2019, provides that PRC residents may register with qualified banks instead of SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. The SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

Regulations Relating to Merger and Acquisition

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), or the M&A Rules, jointly promulgated by the MOFCOM and other 5 departments on 8 August 2006 and subsequently amended on 22 June 2009, require that, among others (i) the purchase of an equity interest or subscription for the increase in the registered capital of non-foreign-invested enterprises, (ii) the establishment of foreign-invested enterprises to purchase and operate the assets of non-foreign-invested enterprises, or (iii) the purchase of the assets of non-foreign-invested enterprises and the use of such assets to establish foreign-invested enterprises to operate such assets, in each case, by foreign investors shall be subject to the M&A Rules. Particularly, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company through an overseas company established or controlled by it or him/her, the acquisition shall be subject to the approval of the MOFCOM.

Regulations Relating to Overseas Securities Offering and Listing by Domestic Companies

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)), or the Draft CSRC Administration Provisions, and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行證券和上市備案管理辦法(徵求意見稿)), or the Draft CSRC Filing Measures, to regulate overseas securities offering and listing activities by domestic companies either in direct or indirect form.

The Draft CSRC Administration Provisions applies to overseas offerings by domestic companies of equity shares, depository receipts, convertible corporate bonds, or other equity-like securities, and overseas listing of the securities for trading. Both direct

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and indirect overseas securities offering and listing by domestic companies would be regulated, of which the former refers to overseas securities offering and listing in a market made by a joint-stock company incorporated domestically, and the latter refers to securities offering and listing in an overseas market made in the name of an offshore entity, while based on the underlying equity, assets, earnings or other similar rights of a domestic company which operates its main business domestically. According to the Draft CSRC Filing Measures, if an issuer meets the following conditions, the offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) the total assets, net assets, revenues or profits of the domestic company/companies of the issuer in the most recent accounting year account for more than 50% of the corresponding figure in the issuer's audited consolidated financial statements for the same period; and (ii) most of the senior management in charge of business operation and management of the issuer are Chinese citizens or have domicile in the PRC, and its main places of business are located in the PRC or main business activities are conducted in the PRC.

Under the Draft CSRC Administration Provisions and the Draft CSRC Filing Measures, a filing-based regulatory system would be implemented covering both direct and indirect overseas offering and listing. For an initial public offering and listing in an overseas market, the issuer shall submit to the CSRC filing documents within 3 working days after such application is submitted. The CSRC would, within 20 working days if filing documents are complete and in compliance with the stipulated requirements, issue a filing notice thereof and publish the filing results on the CSRC website.

Meanwhile, overseas offering and listing by domestic companies would be prohibited under certain circumstance, including but not limited to that (i) if the intended securities offering and listing falls under specific clauses in national laws and regulations and relevant provisions prohibiting such financing activities; (ii) the intended securities offering and listing by domestic companies constitute a threat to or endanger national security as reviewed and determined by competent authorities under the State Council in accordance with relevant laws and regulations; (iii) there are material ownership disputes over the equity, major assets, and core technology, etc.; (iv) the domestic company or its controlling shareholders and actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations; (v) the directors, supervisors, or senior management have been subject to administrative punishments for severe violations in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations; and (vi) other circumstances as prescribed by the State Council. If a domestic company falls into the circumstances where its overseas offering and listing is prohibited prior to the offering and listing, the CSRC and the competent authorities under the State Council shall impose a postponement or termination of the intended overseas offering and listing. The CSRC may cancel the corresponding filing if the intended overseas offering and listing has been filed.

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If domestic companies fail to fulfill the above-mentioned filing procedures or offer and list in an overseas market against the prohibited circumstances, they would be warned and fined up to RMB10 million and even ordered to suspend relevant business or halt operation for rectification, revoke relevant business permits or operational license in severe cases. The controlling shareholders, actual controllers, directors, supervisors, and senior management of such domestic companies would be warned and fined up to RMB5 million independently or concurrently. The securities companies and law firms failing to strictly exercise due diligence and supervise the domestic companies for compliance of relevant rules would be warned and fined up to RMB5 million. The liable personnel would be imposed warnings and fines up to RMB2 million. Also, if there is any material fact concealed or any major content falsified in the filing documents, a fine between RMB1 million and RMB10 million would be imposed on domestic companies if the securities have not already been offered, and a fine between ten percent and one hundred percent of the fund raised would be imposed if the securities have already been offered. The security companies or security service providers who fail to act with due diligence, make misrepresentation, misleading statement or material omission in the documents produced and issued domestically or overseas, which led to disruption of the domestic market order and infringement on the lawful rights and interests of domestic investors, would be, amongst others, fined up to 10 times of the service fees or RMB5 million if there are no service fees or the service fees are less than RMB0.5 million and even banned to provide service in the PRC to overseas offering and listing.

In addition, according to the Negative List which came into effect on January 1, 2022, if a domestic company engaging in business prohibited in the Negative List offers shares and lists in an overseas market, such offering and listing shall be approved by relevant competent PRC authorities. Non-PRC investors must not participate in the operation and management of the company, and their shareholding percentage shall be subject to relevant provisions on the administration of domestic securities investment by Non-PRC investors.

Laws and Regulations Related to Dividend Distribution

The principal statute governing distribution of dividends of foreign-invested enterprises is the PRC Company Law (中華人民共和國公司法), which was issued by SCNPC on 29 December 1993, took effect on 1 July 1994 and last amended and took effect on 26 October 2018. Under the PRC Company Law, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund statutory reserve funds, unless the statutory reserve funds have reached 50% of the registered capital of the enterprises. Wholly foreign-owned enterprises may allocate a portion of their after tax profits based on PRC accounting standards to fund their discretionary reserve funds after they have drawn statutory reserve funds from the after-tax profits, these reserve funds are not distributable as cash dividends.

INTRODUCTION

Overview

We are a beauty and health management service provider covering traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services that are all personalized to our clients' health and beauty desire.

Our Company was incorporated on February 10, 2022 in the Cayman Islands as an exempted company with limited liability and is a holding company of our Group. Our history can be dated back to July 1993 when our first store was established in Hainan province. Ms. Wang founded our Group upon the Group's establishment and our executive Director and chairman of our Board, Mr. Li, joined the Group in January 2003 and led the operations and management of our Group together with Ms. Wang¹. For more details of the experience and qualifications of Mr. Li, see "Directors and Senior Management" in this prospectus.

Business Milestones

The following table illustrates the key milestones of our business and corporate developments:

<u>Time</u>	<u>Milestone</u>
1993	Our first store was established in Hainan province.
1998	Shanghai Beauty Farm Development, a non-wholly owned subsidiary of the Company was incorporated in July and our headquarters was relocated to Shanghai.
2004	Shanghai Beauty Farm, the principal operating subsidiary of the Group, was incorporated in the PRC with limited liability in April.
2005	We established BeautyFarm Training Center (美麗田園培訓中心) in Shanghai in December.
2010	We initiated preparation for our first store offering energy based and injection services, the store was formally launched in 2011.

¹ Ms. WANG Li is the late-wife of Mr. Li.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Time	Milestone
2013	Beijing Xinyu (an entity ultimately controlled by CITIC PE) completed their investment in Shanghai Beauty Farm in December.
2016	We engaged in the strategic investment in “Palaispa” (貝黎詩) in November.
2018	We launched our online customer relationship management (“CRM”) platform in March in order to further enhance user experience across our entire platform. We launched our first healthcare center under the “Neology” (研源) brand in Shanghai in April.

OUR PRINCIPAL SUBSIDIARIES

As of the Latest Practicable Date, we had four subsidiaries which we regard as our principal subsidiaries in terms of contribution to our business and financial performance during the Track Record Period. The following sets forth details of our principal subsidiaries through which we conduct our principal businesses:

Name (Place of incorporation)	Date of incorporation	Principal business	Registered capital (ownership by the Group)
Shanghai Beauty Farm (PRC)	April 23, 2004	Health consultation (excluding diagnosis), sale of cosmetics, daily necessities	RMB102,040,816 (wholly-owned by the Group)
Shanghai Beauty Farm Development Co., Ltd. (上海美麗田園美容發展有限公司, “Shanghai Beauty Farm Development”) (PRC)	July 24, 1998	Lifestyle cosmetic services, personal image design services, sale of cosmetics and daily necessities, personal fitness services	RMB5,000,000 (owned by the Group as to approximately 96% of its registered capital)
Shanghai Yigao Industrial Co., Ltd. (上海逸高實業有限公司, “Shanghai Yigao”) (PRC)	July 26, 2010	Sale of cosmetics	RMB1,000,000 (wholly-owned by the Group)
Shanghai Xiukeer Clinic Co., Ltd. (上海秀可兒門診部有限公司, “Shanghai Xiukeer”) (PRC)	November 30, 2017	Medical, medical cosmetic and lifestyle cosmetic services	RMB30,000,000 (wholly-owned by the Group)

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE DEVELOPMENT

The Company

The Company was incorporated on February 10, 2022 as an exempted company with limited liability. The shareholders of Shanghai Beauty Farm acquired Shares in the Company in proportion to their see-through interest in Shanghai Beauty Farm at the time of the incorporation of the Company (through their interest in the British Virgin Islands entities that are the immediate shareholders of the Company). It was contemplated that Beijing Xinyu's interest in the Company would be held by an offshore entity upon its completion of the relevant overseas direct investment regulatory approval procedures, and hence Shares attributable to its equity interest in Shanghai Beauty Farm prior to the Reorganization were allotted to BVI Xinyu Meiye upon its completion of the relevant overseas direct investment regulatory approval procedures. For further details, please refer to the paragraph headed "Reorganization" below.

On March 11, 2022, ZYLot Holdings Limited also completed a RMB3,975,759 investment in our Company for 0.2% of the Company's issued share capital upon completion of the Reorganization. For further details, please refer to the paragraph headed "Pre-IPO Investments" below.

Upon completion of the Reorganization, Pre-IPO Investment and issuance of Shares pursuant to the Share Incentive Plan, the shareholding structure of the Company was as follows:

Shareholder	Shares	Shareholding Interest
LIY Holdings ⁽¹⁾	1,000,000	0.97%
LIY Management ⁽¹⁾	17,780,000	17.25%
LIFY Management ⁽¹⁾	21,200,000	20.56%
Meiyao Holdings ⁽¹⁾	17,510,000	16.98%
BVI Xinyu Meiye	37,040,000	35.93%
Crest Sail Limited	3,650,000	3.54%
Thriving Team Limited	3,092,784	3.00%
IGHL	1,620,000	1.57%
ZYLot Holdings Limited	200,000	0.19%
Total	103,092,784	100.00%

Note:

(1) Denotes a Controlling Shareholder.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shanghai Beauty Farm

Shanghai Beauty Farm was established in the PRC on April 23, 2004 with an initial registered capital of RMB4,000,000. The shareholding structure of Shanghai Beauty Farm upon establishment is set forth in the table below:

Shareholder	Registered Capital	Equity Interest
	(RMB)	
Ms. Wang ⁽¹⁾	3,570,000	89.25%
MA Xiang (馬祥)	80,000	2.00%
ZHU Jianshe (朱建設)	80,000	2.00%
YANG Jizhan (楊繼戰)	60,000	1.50%
BAO Weiqing (包衛青) ⁽²⁾	60,000	1.50%
YAN Zhen (言真) ⁽³⁾	60,000	1.50%
ZHANG Hongxia (張紅霞)	40,000	1.00%
LIU Min (劉敏)	40,000	1.00%
ZHANG Ying (張穎)	10,000	0.25%
Total	4,000,000	100.00%

Notes:

- (1) Ms. Wang's entire interest in the registered capital of Shanghai Beauty Farm was transferred to Mr. Li on August 20, 2006, Mr. Li further transferred 25% of the equity interest in Shanghai Beauty Farm to Ms. Li on July 15, 2010. The transfers were made as part of their family arrangement.
- (2) BAO Weiqing is the supervisor of Shanghai Beauty Farm.
- (3) YAN Zhen is a director of Shenzhen Qiyan Medical Beauty Clinic (深圳啟研醫療美容診所), our subsidiary.
- (4) The other than shareholders of Shanghai Beauty Farm were employees and former employees of the Group.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Equity Transaction and Introduction of CITIC PE as a Shareholder

Between May 26, 2005 and September 25, 2013, the then shareholders of Shanghai Beauty Farm entered into a series of equity transfer to transfer certain equity interest of Shanghai Beauty Farm to then employees of the Group. Subsequently, pursuant to a shareholder resolution dated December 20, 2013, the then shareholders of Shanghai Beauty Farm transferred an aggregate of RMB2,500,000 in registered capital of Shanghai Beauty Farm (representing approximately 62.50% of the entire registered capital of the Company at the time) to Beijing Xinyu (formerly known as Beijing CITIC Investment Center (Limited Partnership)), a limited partnership ultimately controlled by CITIC PE for a total consideration of RMB231,250,000. The consideration was determined based on arm's length negotiations amongst the parties based on their due diligence at the relevant time. The details of the transfer is set out below:

<u>Transferor</u>	<u>Registered Capital Transferred</u>	<u>Corresponding Equity Interest in the Company</u>	<u>Consideration</u>
	<i>(RMB)</i>		<i>(RMB)</i>
Mr. Li	2,082,000	52.05%	192,585,000
MA Xiang (馬祥)	80,000	2.00%	7,400,000
YAN Zhen (言真)	48,000	1.20%	4,440,000
BAO Weiqing (包衛青)	48,000	1.20%	4,440,000
YANG Jizhan (楊繼戰)	40,000	1.00%	3,700,000
LI Gang (李剛)	40,000	1.00%	3,700,000
ZHANG Hongxia (張紅霞)	40,000	1.00%	3,700,000
ZHU Jianshe (朱建設)	40,000	1.00%	3,700,000
WANG Zhenning (王振寧)	28,000	0.70%	2,590,000
XU Lin (胥琳)	22,000	0.55%	2,035,000
FU Zhenyu (符振宇)	22,000	0.55%	2,035,000
ZHANG Ying (張穎)	10,000	0.25%	925,000

For further details of the investment by Beijing Xinyu, see “— Pre-IPO Investments” in this section. Each of the individual shareholders of Shanghai Beauty Farm as set forth herein are either employees or former employees of the Group.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Upon completion of the abovementioned transfer of our registered capital on December 20, 2013, the shareholding structure of Shanghai Beauty Farm was as follows:

Shareholder	Registered Capital	Equity Interest
	(RMB)	
Beijing Xinyu	2,500,000	62.50%
Ms. Li	760,000	19.00%
Mr. Li	408,000	10.20%
Shanghai Changcheng ⁽¹⁾	240,000	6.00%
YANG Jizhan (楊繼戰)	20,000	0.50%
HA Xiaolei (哈小蕾)	20,000	0.50%
BAO Weiqing (包衛青)	12,000	0.30%
WANG Zhenning (王振寧)	12,000	0.30%
YAN Zhen (言真)	12,000	0.30%
XU Lin (胥琳)	8,000	0.20%
FU Zhenyu (符振宇)	8,000	0.20%
Total	4,000,000	100.00%

Note:

- (1) Shanghai Changcheng became a shareholder of Shanghai Beauty Farm on September 27, 2013 when Ms. Li transferred 6% of the equity interest in Shanghai Beauty Farm to Shanghai Changcheng. Shanghai Changcheng is wholly-owned by Ms. Li.

First Capital Increase by Way of Equity Swap and Equity Transfers

On June 30, 2015, Henan Meiyao Enterprise Management Consulting Co., Ltd. (河南美耀企業管理諮詢有限公司) (“**Henan Meiyao**”) entered into an equity swap agreement, pursuant to which it agreed to inject 49% of the equity interest of each of Shanghai Meiju Medical Technology Development Co., Ltd. (上海美聚醫療科技發展有限公司) (“**Shanghai Meiju**”) and Shanghai Ouhua Medical Beauty Clinic Co., Ltd. (上海歐華醫療美容門診部有限公司) (“**Shanghai Ouhua**”) to Shanghai Beauty Farm in subscription for RMB672,887 in registered capital of Shanghai Beauty Farm. Prior to the equity swap, each of Shanghai Meiju and Shanghai Ouhua was held as to 51% by Shanghai Beauty Farm and 49% by Henan Meiyao, respectively. The terms of the equity swap was determined based on arm’s length negotiation between Shanghai Beauty Farm and Henan Meiyao, with reference to the valuation of Shanghai Meiju and Shanghai Ouhua at the time based on a valuation report prepared by an independent valuer. The capital increase was completed in December 2015 and each of Shanghai Meiju and Shanghai Ouhua became wholly-owned subsidiary of Shanghai Beauty Farm.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Mr. Li also effected the following equity transfer between September 2015 and November 2017:

Transferor	Transferee	Transaction Date	Registered Capital Transferred	Corresponding Equity Interest in the Company	Consideration
			(RMB)		(RMB)
Mr. Li	JIN Bingmei (金冰梅) ⁽¹⁾	September 1, 2015	8,000	0.20% ⁽²⁾	8,000
Mr. Li	JIN Bingmei (金冰梅)	August 1, 2016	8,000	0.17%	8,000
Mr. Li	Shanghai Youyi ⁽³⁾	October 26, 2017	24,000	0.51%	2,465,300

Notes:

- (1) JIN Bingmei was a former employee of the Group.
- (2) The equity interest percentage assumes completion of the capital increase by Henan Meiyao in December 2015.
- (3) Shanghai Youyi is a limited partnership established in the PRC and is an employee incentive platform of our Company. Mr. Li, a Controlling Shareholder serves as Shanghai Youyi's general partner.

Upon completion of the abovementioned transactions, the shareholding structure of Shanghai Beauty Farm was as follows:

Shareholder	Registered Capital	Equity Interest
	(RMB)	
Beijing Xinyu	2,500,000	53.50%
Ms. Li	760,000	16.26%
Henan Meiyao ⁽¹⁾	672,887	14.40%
Mr. Li	368,000	7.87%
Shanghai Changcheng	240,000	5.14%
Shanghai Youyi	24,000	0.51%
YANG Jizhan (楊繼戰)	20,000	0.43%
HA Xiaolei (哈小蕾)	20,000	0.43%
JIN Bingmei (金冰梅)	16,000	0.34%
BAO Weiqing (包衛青)	12,000	0.26%
WANG Zhenning (王振寧)	12,000	0.26%
YAN Zhen (言真)	12,000	0.26%
XU Lin (胥琳)	8,000	0.17%
FU Zhenyu (符振宇)	8,000	0.17%
Total	4,672,887	100.00%

Note:

- (1) Henan Meiyao first became acquainted with the Group at the time of the equity swap, and Henan Meiyao was owned by Cui Yuanjun, Niu Guifen and Yuan Huimin. Mr. Lian, our executive Director, is the son of Niu Guifen, and Cui Yuanjun and Yuan Huimin are his business partners. Niu Guifen is currently 74 years old and has retired. Cui Yuanjun and Yuan Huimin both received medical related education and training, and have worked in the medical industry upon completion of their education. Cui Yuanjun and Yuan Huimin are employed by hospitals in the PRC and their job duties are procurement of medical devices and provision of examination services, respectively. Each of Cui Yuanjun, Niu Guifen and Yuan Huimin has not participated in the operations and management of our Group and were only involved in Henan Meiyao in their capacity as investors. Mr. Lian also became a shareholder of Henan Meiyao by way of capital injection to Henan Meiyao in August 2018.

Second Capital Increase and Equity Transfer

Pursuant to a shareholder resolution dated November 1, 2017, Shanghai Beauty Farm agreed to further increase its registered capital by RMB34,370 to RMB4,707,257. The increase in registered capital was to be subscribed by Shanghai Youyi, a onshore employee shareholding platform of Shanghai Beauty Farm, in November 2017.

Subsequent to the capital increase, Beijing Xinyu agreed to transfer RMB753,161 in the registered capital of Shanghai Beauty Farm (representing 16.00% of Shanghai Beauty Farm's registered capital after completion of the aforementioned capital increase) to Kaiping Youyi Enterprise Management Consulting Co., Ltd. (開平市優羿企業管理諮詢有限公司, "Kaiping Youyi") for a total consideration of RMB395,000,000 on October 1, 2018. Kaiping Youyi was a company incorporated in the PRC and was controlled by Mr. Li. The consideration was determined based on arm's length negotiations between the parties, taking into account a control premium upon obtaining control of Shanghai Beauty Farm upon completion of the transaction. Kaiping Youyi further transferred the registered capital of RMB753,161 to Shanghai Chengyun at nil consideration on February 28, 2019.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Upon completion of the aforementioned transactions, the shareholding structure of Shanghai Beauty Farm was as follows:

Shareholder	Registered Capital	Equity Interest
	(RMB)	
Ms. Li ⁽¹⁾	760,000	16.15%
Shanghai Chengyun ⁽¹⁾	753,161	16.00%
Henan Meiyao ⁽¹⁾	672,887	14.29%
Mr. Li ⁽¹⁾	368,000	7.82%
Shanghai Changcheng ⁽¹⁾	240,000	5.10%
Shanghai Youyi ⁽¹⁾	58,370	1.24%
Beijing Xinyu	1,746,839	37.11%
YANG Jizhan (楊繼戰)	20,000	0.42%
HA Xiaolei (哈小蕾)	20,000	0.42%
JIN Bingmei (金冰梅)	16,000	0.34%
BAO Weiqing (包衛青)	12,000	0.25%
WANG Zhenning (王振寧)	12,000	0.25%
YAN Zhen (言真)	12,000	0.25%
XU Lin (胥琳)	8,000	0.17%
FU Zhenyu (符振宇)	8,000	0.17%
Total	4,707,257	100.00%

Note:

- (1) Denotes individuals who are Controlling Shareholders or entities which are ultimately controlled by a Controlling Shareholder.

Pursuant to the Reorganization, the equity interest in Shanghai Beauty Farm and other subsidiaries of the Group (other than the entities subject to the Contractual Arrangement) were transferred to Shanghai Aiyumei and became indirect subsidiaries of the Company on March 10, 2022. For further details, please refer to the paragraph headed “Reorganization” below.

Other Principal Subsidiaries

Shanghai Beauty Farm Development was incorporated on July 24, 1998. Shanghai Beauty Farm Development has been under the control and ownership of Mr. Li since September 2004 and became a wholly-owned subsidiary of the Shanghai Beauty Farm in January 2010. On June 5, 2020, Shanghai Beauty Farm transferred 10% of the equity interest in Shanghai Beauty Farm Development to Shanghai Qibeixu Commercial Management Partnership (Limited Partnership) (上海啟貝旭商業管理合夥企業(有限合夥), “**Shanghai Qibeixu**”) for nil consideration. Shanghai Qibeixu is an employee incentive platform established by our Group. Its general partner, Shanghai Yingsong Enterprise Management Co., Ltd. (上海縈松企業管理有限公司), is a wholly-owned subsidiary of Shanghai Beauty Farm and its largest limited partner holding 57.88% of the partnership interest in Shanghai Qibeixu, Shanghai Ranyou Enterprise Management Co., Ltd. (上海冉優企業管理有限公司), is also a wholly-owned subsidiary of the Company. Shanghai Qibeixu has 35 other limited partners who are all employees and former employees of the Group based in the Shanghai and East China region, each holding between 0.49% to 5.11% of the partnership’s interest. Shanghai Beauty Farm Development is therefore regarded as a non-wholly owned subsidiary of the Group.

Shanghai Yigao was incorporated on July 26, 2010 and has been a wholly-owned subsidiary of the Group since its inception and serves as a operational subsidiary engaging in Group-wide businesses such as procurement of supplies for the Group.

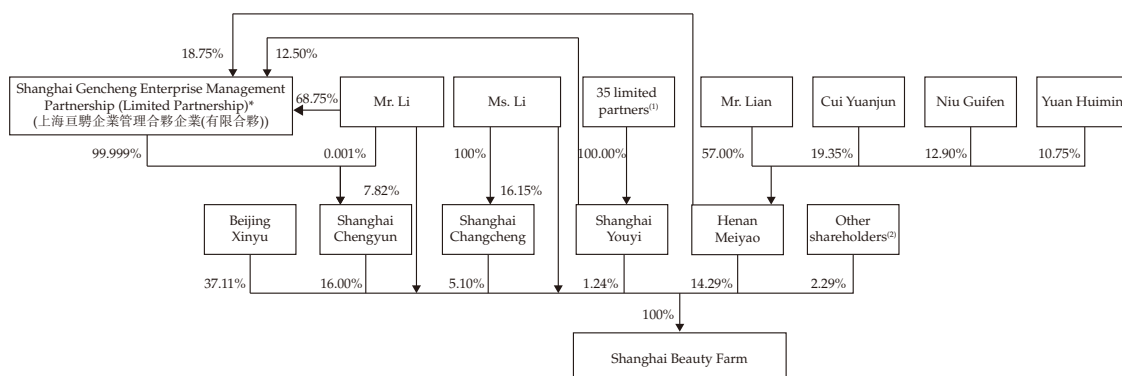
Shanghai Xiukeer was incorporated on November 30, 2017 and was a wholly owned subsidiary of the Group at the time of its inception. On January 29, 2022, as part of our reorganization and establishment of the Contractual Arrangement, Hainan Meirui International Medical and Health Industry Co., Ltd. (海南美瑞國際醫療健康產業有限公司), a wholly owned subsidiary of the Group, transfer 70% and 30% of the equity interest in Shanghai Xiukeer to Shanghai Meiju Medical Technology Development Co., Ltd. (上海美聚醫療科技發展有限公司, “**Shanghai Meiju**”) and Shanghai Liernuo, respectively. Shanghai Meiju is a wholly-owned subsidiary of the Group and we control Shanghai Liernuo through the Contractual Arrangement. Please refer to the section headed “Contractual Arrangements” in this prospectus for details.

Our PRC Legal Advisers have confirmed that the change in share capital of our principal subsidiaries as set forth above have been properly and legally completed and all regulatory approval has been obtained in accordance with the PRC laws and regulations.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

Prior to the reorganization of the Group (the “**Reorganization**”), Shanghai Beauty Farm was the holding company of the Group, the following chart sets forth the simplified corporate structure of the Group prior to the Reorganization:



Notes:

- (1) The 35 limited partners of Shanghai Youyi are current or former employees of the Group, including our Directors, Mr. Li, Mr. Lian and our senior management, Ms. Zhou Min, holding 11.90%, 7.72% and 10.80% of the interest in Shanghai Youyi, respectively.
- (2) Shanghai Beauty Farm has 8 other shareholders, such shareholders are current or former employees of the Group and each holds less than 0.5% of Shanghai Beauty Farm’s registered capital prior to the Reorganization. As part of the Reorganization, their interest in Shanghai Beauty Farm are reflected in their respective interest in IGHIL and Crest Sail Limited.

Step 1: Establishment of offshore corporate structure and introduction of foreign investor to Shanghai Beauty Farm

On February 10, 2022, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Our Company then established Beauty Farm Medical and Health Industry Limited, a wholly owned subsidiary incorporated in Hong Kong with limited liability on February 22, 2022 and Shanghai Aiyumei, a wholly foreign owned enterprise and a subsidiary of the Company in the PRC on March 10, 2022. Upon the incorporation of our Company, then shareholders of Shanghai Beauty Farm, through companies incorporated in the British Virgin Islands and controlled by them, were issued Shares in the Company.

On February 18, 2022, Mr. Zang Ye (藏曄) subscribed for RMB2,040,816 in the registered capital of Shanghai Beauty Farm at a consideration of RMB3,970,755. Upon completion of the subscription, Shanghai Beauty Farm was converted into a sino-foreign joint venture entity. For details of the Pre-IPO Investment, please refer to the paragraphs headed “— Pre-IPO Investments” below in this section.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Step 2: Injection of the Shanghai Beauty Farm into the listing Group

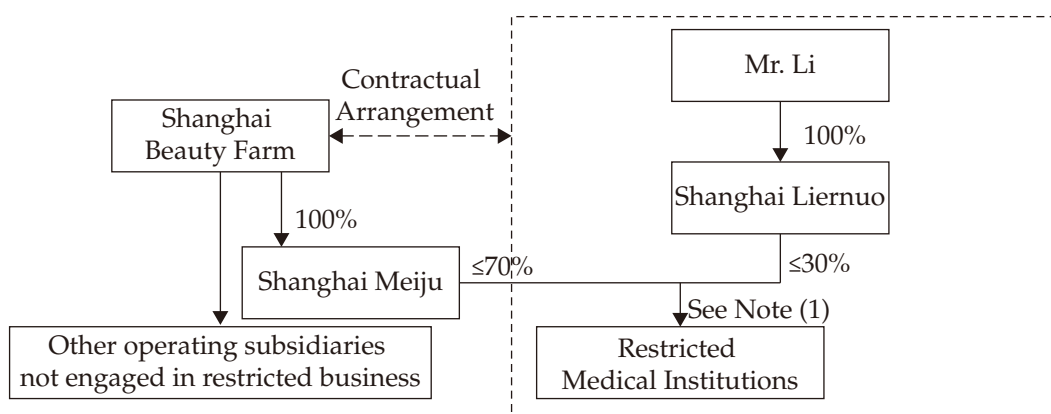
On March 10, 2022, the then shareholders of Shanghai Beauty Farm transferred their equity interest in Shanghai Beauty Farm to Shanghai Aiyumei for a cash consideration of RMB198,787,927. The consideration was determined on arm's length with reference to the Company's then valuation set forth in a valuation report prepared by an independent valuer.

Step 3: Establishment of Contractual Arrangement

As part of our Reorganization, part of the equity interest in the Restricted Medical Institutions, being businesses subject to foreign investment restrictions in the PRC, was transferred to Shanghai Liernuo. The interest was transferred to ensure that Shanghai Liernuo and other onshore shareholders of such Restricted Medical Institutions will hold at least 30% of the equity interest in each of the Medical Institutions.

On April 13, 2022, in order to comply with relevant foreign investment restrictions in the PRC and maintain effective control over the operation of Shanghai Liernuo, we established the Contractual Arrangement among Shanghai Beauty Farm, Shanghai Liernuo, Mr. Li, being the registered shareholder of Shanghai Liernuo and the Restricted Medical Institutions, being the operating entities of the foreign investment restricted business, providing our Group with effective control over, and to consolidate all economic benefits arising from Shanghai Liernuo into our Group. Please refer to the paragraph headed “— Our Structure Immediately Prior to the Global Offering” below in this section and the section headed “Contractual Arrangements” in this prospectus for details.

Upon completion of the Contractual Arrangement, the onshore shareholding structure of our Group is as follows:



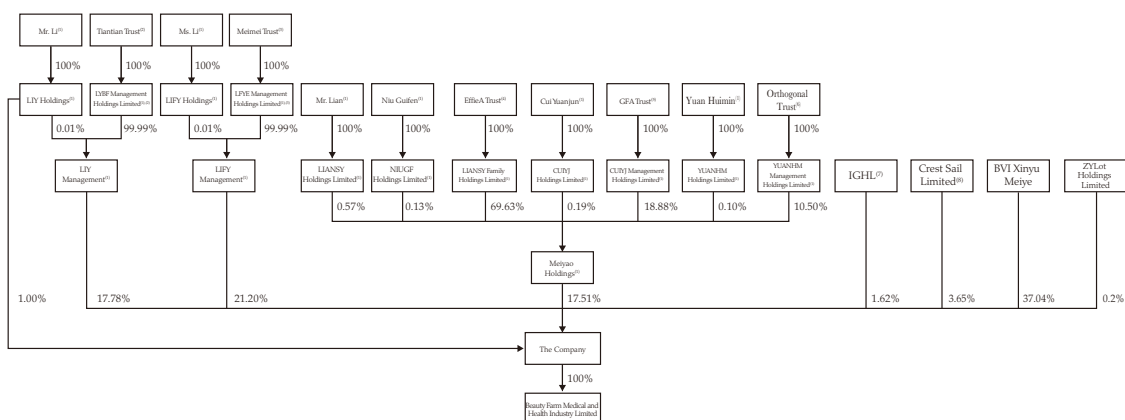
Note:

- (1) For details of our Restricted Medical Institutions, please refer to the section headed “Contractual Arrangements — Our Contractual Arrangements” in this prospectus.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Step 4: CITIC PE's acquisition of offshore interest

On April 21, 2022, BVI Xinyu Meiye, a company incorporated in the British Virgin Islands and controlled by Beijing Xinyu through Shanghai Xinzhi Yuyuan Enterprise Management Partnership (Limited Partnership) (上海信致鈺遠企業管理合夥企業(有限合夥)), was issued and allotted 37,040,000 preferred shares in the Company at a consideration of RMB72,293,801 upon obtaining its overseas direct investment regulatory approval. Such preferred shares provide BVI Xinyu Meiye with certain special rights, and will be automatically converted into ordinary Shares upon Listing. Immediately upon completion of the Share issuances and allotment, the offshore shareholding structure of our Group is as follows:



Notes:

- (1) Denotes parties that are Controlling Shareholders.
- (2) Tiantian Trust is a family trust established and controlled by its settlor Mr. Li.
- (3) Meimei Trust is a family trust established and controlled by its settlor Ms. Li.
- (4) EffieA Trust is a family trust established and controlled by its settlor Mr. Lian.
- (5) GFA Trust is a family trust established and controlled by its settlor Cui Yuanjun.
- (6) Orthogonal Trust is a family trust established and controlled by its settlor Yuan Huimin.
- (7) IGHL is an employee shareholding platform, for further details, please refer to the paragraph headed “— Employee Incentive Platform — IGHL” below in this section.
- (8) Crest Sail Limited is an employee shareholding platform, for further details, please refer to the paragraph headed “— Employee Incentive Platform — Crest Sail Limited” below in this section.

DISPOSAL OF HAINAN QIYAN

Hainan Qiyán was established in the PRC on January 28, 2016. Immediately prior to the disposal by the Group on December 25, 2020, Hainan Qiyán was an indirect wholly-owned subsidiary of the Group, with a registered share capital of RMB20 million.

On December 25, 2020, Hainan Meirui International Medical and Health Industry Co., Ltd. (海南美瑞國際醫療健康產業有限公司), a wholly-owned subsidiary of the Company holding 100% equity interest in Hainan Qiyán, entered into an equity transfer agreement with Shanghai Qishi and Mr. Li as transferee receiving 99.999% and 0.001% of the equity interest in Hainan Qiyán, respectively. The consideration paid by Shanghai Qishi and Mr. Li was RMB19,999,800 and RMB200, respectively, the consideration was determined via arm's length negotiation taking into account the amount of the paid-up capital of Hainan Qiyán and valuation report prepared by an independent valuer. The disposal has been settled and completed on December 29, 2020 and upon completion of the disposal, the Group has ceased to hold any interest in Hainan Qiyán. The disposal was made as the business carried out by Hainan Qiyán was not directly related to the core service offerings of the Group and commits significant effort to innovative research and development, meaning that continuing on the business will require significant management attention to be placed on Hainan Qiyán's operations. We also consider that Hainan Qiyán's core focus on medical treatments based on innovative research, development and cooperation is different from the rest of our Group and the disposal will allow us to better focus on our other business. No gain on disposal was recognized by the Group as a result of the disposal. For more details on the background of Hainan Qiyán and the shareholders of Shanghai Qishi, please refer to the paragraphs headed "Relationship with our Controlling Shareholders — Delineation of Business — Excluded Business — Hainan Qiyán" in this prospectus. As confirmed by our Directors, Hainan Qiyán has not been subject to any administrative penalty involving material non-compliance with the relevant and applicable PRC laws and regulations during the Track Record Period prior to the disposal.

According to the confirmation issued by the Qionghai Market Supervision and Administration Bureau on July 5, 2021, no record of Hainan Qiyán's violation of relevant laws and regulations was found in Hainan Market Supervision Comprehensive Business Management System during the Track Record Period prior to the disposal. According to the Notification of Results of Tax-related Information Inquiry provided by Qionghai Taxation Bureau of the State Administration of Taxation on July 12, 2021, after inquiring into the Golden Tax Phase III system, Hainan Qiyán has no tax evasion, tax resistance, or tax arrears and has not been subject to administrative penalties caused by tax-related incidents during the Track Record Period prior to the disposal. On November 16, 2021, the respective PRC Legal Advisors of Company and of the Joint Sponsors conducted an interview with the officer of the Bo'ao Lecheng International Medical Tourism Pilot Area Administration ("**Lecheng Administration**"), the direct and competent supervision authority for business operations of Hainan Qiyán. Pursuant to the interview, Lecheng Administration confirmed that the business operation activities of Hainan Qiyán had been under its effective supervision and Hainan Qiyán had not been subject to any administrative punishment by Lecheng Administration due to violations of laws and regulations, nor had been in any violation of national and local laws and regulations on medical and health supervision. Based on the foregoing, the PRC Legal Advisors of Company are of the view that Hainan Qiyán complied with relevant PRC laws and regulations applicable to its operations in all material aspects during the Track Record Period prior to the disposal.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

We maintain certain continuing connected transactions with Hainan Qiyao, for further details of such transactions, see the section headed “Connected Transactions” in this prospectus.

ACQUISITION OF BEIJING PALAISPA AND SHANGHAI LUANMEI

On November 18, 2021, Shanghai Beauty Farm entered into an equity transfer agreement for the acquisition of 12.345% interest in Beijing Palaispa Business Management Co., Ltd. (北京貝黎詩商業管理有限公司, “**Beijing Palaispa**”), from 6 individual minority shareholders of Beijing Palaispa for a total consideration of RMB16.98 million. On December 31, 2021, Shanghai Beauty Farm further entered into an equity transfer agreement for an acquisition of 7.655% interest of Beijing Palaispa from Hu Zhenjiang (胡鎮江) for a consideration of RMB10.53 million. Each of the aforementioned former shareholders were Independent Third Party and the consideration was determined based on arm’s length negotiation between the Group and the former shareholders. Beijing Palaispa was a non-wholly owned subsidiary of the Group prior to the transactions and immediately upon completion of the transactions, Beijing Palaispa was owned as to 90% and 10% by Shanghai Beauty Farm and Hu Zhenjiang (胡鎮江), respectively. Beijing Palaispa is a premium traditional beauty service provider which provides the services under the brand name “Palaispa” (貝黎詩).

On March 16, 2022, our Group completed the acquisition of the entire equity interest in Shanghai Luanmei E-Commerce Co., Ltd (上海樂美電子商務有限公司, “**Shanghai Luanmei**”), from Shanghai Purkang Data Technology (Group) Co., Ltd. (上海璞康數據科技(集團)有限公司, “**Shanghai Purkang**”), Jin Xiaobo (金曉波) and Ye Rongrong (葉蓉蓉) for a total consideration of RMB2.00 million. Shanghai Luanmei was a company incorporated in the PRC with limited liability and its primary business is the operation of a “flagship” online store for the brand “Babor” on Tmall (天貓商城). The consideration was determined based on arm’s length negotiation between the Group and the vendors with reference to Shanghai Luanmei’s registered share capital and net asset value at the time. The Group has made the acquisition in order to leverage on the online presence and sales channel operated by Shanghai Luanmei in relation to products under the “Babor” brand, the Group consider that this would create significant synergy with our offline operations as the “Babor” products are also currently used and is available for sale at the Group’s stores and other facilities. Shanghai Purkang is beneficially owned by Yu Yong (于勇), who, along with Jin Xiaobo (金曉波) and Ye Rongrong (葉蓉蓉) are third party independent of the Group and its Controlling Shareholders.

Shanghai Luanmei was previously a subsidiary of the Group until April 2020 when Shanghai Yigao, an indirect wholly-owned subsidiary of the Company, sold off the entire equity interest in Shanghai Luanmei to Shanghai Purkang Industrial Co., Ltd. (上海璞康實業有限公司), for a consideration of RMB20.00 million. The consideration was determined based on arm’s length negotiation between the parties taking into account the net asset value and registered share capital of Shanghai Luanmei at the time. The Group disposed of its equity interest in Shanghai Luanmei in April 2020 in hopes that the purchasers’ experience in e-commerce will help promote and elevate the online presence of the “Babor” brand and enable the Group to leverage from the enhanced publicity. As part of the Company’s ongoing evaluation of market conditions and records of associated brands,

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the Company decided to re-acquire Shanghai Luanmei at a market price in March 2022 in order to grow and develop the potential of the “Babor” brand in-house. During the period when Shanghai Luanmei was held by the Independent Third Party shareholders, it undertook a reduction of registered share capital and its registered share capital was reduced from RMB20.00 million to RMB2.00 million. The Group has elected to re-acquire interest within Shanghai Luanmei in order to leverage on the online store operated by Shanghai Luanmei and the Group believes that the acquisition will enable additional synergy with the Group’s offline operations.

ACQUISITION OF BUSINESS AND ASSETS FORMING STORES

During the Track Record Period, the Group also acquired six stores (as well as assets forming stores) from four independent third parties. These stores and assets are located in Taiyuan, Chengdu, Xi’an and Wuhan and each of these stores and assets were incorporated into the Group’s national network of stores upon completion of the acquisition. The total consideration paid by the Group for the acquisitions were approximately RMB17.3 million. Please see note 36 of the Accountant’s Report included in Appendix I to this prospectus for further details of the acquisitions.

CONCERT PARTY ARRANGEMENT

Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun and Yuan Huimin have entered into a concert party agreement dated March 10, 2022 to confirm that they have acted in concert in the management, decision-making and all major decisions of our Group since the beginning of the Track Record Period and will continue to act in concert after Listing. The concert party agreement has confirmed that they have agreed to and shall procure Shares controlled by corporations or trusts under their control shall act in concert and reach consensus on any proposal presented to the general meeting of the Shareholders of our Company for voting. In the event they fail to reach such consensus, they will defer to the decision of Mr. Li.

As of the Latest Practicable Date, the Controlling Shareholders are entitled to exercise voting rights of approximately 55.77% of the total issued share capital of our Company. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), the Controlling Shareholders will be entitled to exercise voting rights of approximately 49.87%. Therefore, Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun, Yuan Huimin, LIY Holdings, LYBF Management Holdings Limited, LIY Management, LIFY Holdings, LFYE Management Holdings Limited, LIFY Management, Meiyao Holdings, LIANSY Holdings Limited, NIUGF Holdings Limited, LIANSY Family Holdings Limited, CUIYJ Holdings Limited, CUIYJ Management Holdings Limited, YUANHM Holdings Limited, and YUANHM Management Holdings Limited are our Controlling Shareholders upon Listing.

EMPLOYEE INCENTIVE PLATFORMS

In recognition of the contributions of our employees and to incentivize them to further promote our development, IGHL and Crest Sail Limited were established as our employee incentive platforms.

IGHL

IGHL is a company incorporated in the British Virgin Islands with limited liability. As of the Latest Practicable Date, IGHL has 7 shareholders, including Ms. ZHOU Min (our senior management), who holds 1 vote-bearing class A share in IGHL which represents 100% voting rights in IGHL, the other 6 shareholders of IGHL, each being employees of the Group all holds non-voting class B shares in IGHL. None of the shareholders are interested in over 30% of IGHL's total issued share capital.

Crest Sail Limited

Crest Sail Limited is a company incorporated in the British Virgin Islands with limited liability. As of the Latest Practicable Date, Crest Sail Limited is controlled by The Vantage Star Global Trust, a trust to which The Core Trust Company (an independent professional trustee) serves as trustee, the independent professional trustee controls the voting rights of Crest Sail Limited for the administration of The Vantage Star Global Trust. As of the Latest Practicable Date, The Vantage Star Global Trust has 33 beneficiaries, including Ms. ZHOU Min (our senior management) and 32 other current or former employees of our Group, and directly held approximately 3.54% equity interest in the Company, Ms. ZHOU Min is taken to be interested in 19.78% of the interest of The Vantage Star Global Trust. The settlor of The Vantage Star Global Trust is YouYi Holdings Limited, a special purpose vehicle ultimately owned by the initial beneficiaries of The Vantage Star Global Trust. Pursuant to the rule underlying the incentive platform, no beneficiaries will be entitled to exercise voting rights underlying the Shares until the Shares are vested to them and the trustee of The Vantage Star Global Trust will not exercise the voting rights underlying the shares held in the trust.

Share Incentive Plan

Our Company adopted the Share Incentive Plan on March 24, 2022, and 3,092,784 Shares were allotted to Thriving Team Limited who hold the Shares underlying the awards under the Share Incentive Plan. Thriving Team Limited is a company incorporated in the British Virgin Islands with limited liability. As of the Latest Practicable Date, Thriving Team Limited is controlled by Thriving Team Trust, a trust to which The Core Trust Company (an independent professional trustee) serves as trustee, the independent professional trustee controls the voting rights of Thriving Team Limited for the administration of the Thriving Team Trust. The Company is the settlor of the Thriving Team Trust and the employee-grantee under the Share Incentive Plan are the beneficiary under the Thriving Team Trust. Pursuant to the Share Incentive Plan, eligible participant under the Share Incentive Plan will include employees and officer of the Group but will not include any Directors or core connected person of the Group, no grantee will be entitled to exercise voting rights underlying the Shares awarded to them until the Shares

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are vested to them and the trustee of Thriving Team Trust will not exercise the voting rights underlying the shares held in the trust. For further details of the Share Incentive Plan, please refer to the paragraph headed “D. Share Incentive Plan — 1. 2022 Share Incentive Plan” in Appendix V to this prospectus.

PRE-IPO INVESTMENTS

Details of the two Pre-IPO Investments related to the Group from (i) Beijing Xinyu and CITIC PE and (ii) Mr. Zang Ye are set forth below.

Beijing Xinyu is a Pre-IPO Investor of the Group, and became a shareholder of Shanghai Beauty Farm on December 20, 2013, for further details on the historical equity changes, please refer to “— Corporate Development — Equity Transaction and Introduction of CITIC PE as a Shareholder” and “— Reorganization — Step 4: CITIC PE’s acquisition of offshore interest” in this section. Additional details on the Pre-IPO Investment is set forth below:

Date on which the investment was fully settled by the Pre-IPO Investors	December 26, 2013
Total consideration paid⁽¹⁾	RMB231,250,000
Approximate cost per Share paid⁽²⁾	RMB1.79
Discount to the Offer Price⁽³⁾	89.7%
Implied post-money valuation of the Company	RMB370,000,000
Lock-up Period	As BVI Xinyu Meiye holds over 30% of the Shares of the Company as of the date of this prospectus and its shareholding is expected to decrease to below 30% upon completion of the Global Offering, BVI Xinyu Meiye will be subject to a lock-up for a period of 6 months beginning from the Listing Date.
Strategic benefits of the Pre-IPO Investors	Beijing Xinyu is a limited partnership ultimately controlled by CITIC PE, the investment from CITIC PE was introduced to provide us with professional support and advice in elevating the Company’s operation and management systems, introducing market insights and experience through their other investments.

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Rights of BVI Xinyu Meiye

The Shareholders of the Company entered into a shareholders' agreement pursuant to which BVI Xinyu Meiye was granted with customary special rights, including but not limited to co-sale, drag-along rights, director designation right and anti-dilution right. Pursuant to the shareholders' agreement, all such special rights will cease to be effective and be discontinued upon Listing.

Notes:

- (1) Subsequent to the initial acquisition, Beijing Xinyu transferred part of the interest acquired to the other shareholder of Shanghai Beauty Farm, for further details, see “— Corporate Development — Second Capital Increase and Equity Transfer” in this section. As Beijing Xinyu acquired the equity interest in Shanghai Beauty Farm from Mr. Li and other shareholders of Shanghai Beauty Farm, Shanghai Beauty Farm did not receive the proceeds for the transaction.
- (2) Calculated based on the consideration paid by Beijing Xinyu divided by the equity interests in Shanghai Beauty Farm as converted into Shares of our Company upon completion of the Reorganization (after factoring into account subsequent transfers made by Shanghai Beauty Farm and the Share Split).
- (3) Calculated based on the currency translation of HK\$1 to RMB0.89792 and on the basis of the Offer Price of HK\$19.32.

Information About CITIC PE

Beijing Xinyu is a limited partnership established in the PRC, the general partner of which is Beijing Youde, a limited partnership incorporated in the PRC whose general partner is Shanghai Pannuo Corporate Management Service Company Limited (上海磐諾企業管理服務有限公司, “**Shanghai Pannuo**”), a company incorporated in the PRC with limited liability. Shanghai Pannuo is wholly-owned by CITIC PE, which is in turn owned as to 35% by CITIC Securities Company Limited, a company listed on both the Stock Exchange and the Shanghai Stock Exchange. Beijing Xinyu's interest in our Group is held by BVI Xinyu Meiye after the completion of the Reorganization, BVI Xinyu Meiye is an entity which is ultimately controlled by CITIC PE.

Prior to October 2018, Beijing Xinyu was the largest shareholder of the Group. For further details of the transfer in October 2018, please refer to the paragraphs headed “History, Reorganization and Corporate Structure — Shanghai Beauty Farm — Second Capital Increase and Equity Transfer” in this prospectus. During the relevant time, Beijing Xinyu took a more active role in advising the management of the Group on matters including corporate governance, strategic planning, merger and acquisitions, marketing and brand image enhancement, supply chain management and other financial and administrative matters, Beijing Xinyu participated in the Group's management through directors whom it had nominated to the board of Shanghai Beauty Farm, including Mr. ZHAI Feng and Mr. GENG Jiaqi, both of whom also currently serve as our non-executive Directors.

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Mr. Zang Ye is a Pre-IPO Investor of the Group and acquired interest in our Company through ZYLot Holdings Limited on March 11, 2022, additional details on its Pre-IPO Investment is set forth below:

Date on which the investment was fully settled by the Pre-IPO Investors	March 11, 2022
Total consideration paid⁽¹⁾	RMB3,975,759
Approximate cost per Share paid⁽²⁾	RMB9.94
Discount to the Offer Price⁽³⁾	42.7%
Implied post-money valuation of the Company⁽⁴⁾	RMB2,049,360,319

Strategic benefits of the Pre-IPO Investor	Mr. Zang Ye is an experienced investor who is active within the Hong Kong commercial community. Mr. Zang Ye is the vice-secretary general of the Hong Kong Hangzhou Commerce Chambers (香港杭州商會). Mr. Zang Ye is an experienced Hong Kong based investor and the Company considers that he would be able to provide the Company with market insights and experience of the Hong Kong investment environment.
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Rights and lock-up of Mr. Zang	Mr. Zang has no special rights, his interest (held through ZYLOT Holdings Limited) is subject to a lock-up for a period of 6 months from the Listing Date.
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Notes:

- (1) The consideration was determined based on arm's length negotiation between Mr. Zang Ye and the Company. The proceeds from the investors was utilized by the Company as general working capital.
- (2) Calculated after taking into account the effect of the Share Split.
- (3) Calculated based on the currency translation of HK\$1 to RMB0.89792 and on the basis of the Offer Price of HK\$19.32.
- (4) It is respectfully submitted that the valuation of the Pre-IPO Investment was based on a number of factors, including (i) the valuation of the Group in January 2022 taking into account the arm's length negotiations when the parties first engaged in discussion of the potential Pre-IPO Investment; (ii) the difference in risks undertaken by the Pre-IPO Investor investing in a private company and an investor investing in a public company; (iii) the cooperation required from Mr.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Zang Ye in relation to the Reorganization and the experience and contribution that Mr. Zang Ye could bring to the Company as a Pre-IPO Investor. The step-up in valuation between the Pre-IPO Investment to the valuation upon Listing reflects the expected increase in the Company's capital and resources to implement the plans as detailed in the section headed "Future Plans and Use of Proceeds" in this prospectus as well as the Company's status as a listing company upon Listing.

Compliance With Interim Guidance and Guidance Letters

The Joint Sponsors confirm that the investments by the Pre-IPO Investors are in compliance with the Guidance Letter HKEX-GL29-12 issued on January 2012 and updated in March 2017 by the Stock Exchange and the Guidance letter HKEX-GL43-12 issued in October 2012 and updated in July 2013 and in March 2017 by the Stock Exchange.

PUBLIC FLOAT

Upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), the shares held by our core connected persons will not count towards the public float. Save for the shares ultimately beneficially held by the Controlling Shareholders, BVI Xinyu Meiye, to the best of our Directors' knowledge, all other shareholders of the Company are not core connected persons of the Company. As a result, our other existing Shareholders will aggregately hold a total of approximately 7.43% of Shares (upon completion of the Global Offering without taking into account the Shares which may be allotted and issued under the Over-allotment Option) which will count towards the public float. Assuming the Offer Shares are allotted and issued to public shareholders, over 25% of the Company's total issued Shares will be held by the public upon completion of the Global Offering.

PRC LEGAL COMPLIANCE

M&A Rules

Pursuant to the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the "M&A Rules"), which were jointly promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the STA, the SAIC, the CSRC and the SAFE on August 8, 2006, came into effect on September 8, 2006 and subsequently amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. According to the Article 11 of the M&A Rules, where a domestic enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic enterprise which is related to or connected with it/him/her, approval from the MOFCOM is required.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Given that (i) Mr. Zang Ye, a non-domestic investor, is not connected with our Group when it acquired equity interests of Shanghai Beauty Farm and such acquisition were completed in compliance with applicable PRC laws and regulations; (ii) Shanghai Beauty Farm was a sino-foreign joint venture when its 100% equity interests was acquired by Shanghai Aiyumei, our PRC Legal Advisers are of the opinion that the onshore reorganization of the Reorganization is not subject to approval from the MOFCOM and the CSRC under the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented, and whether the relevant PRC government authorities, including CSRC, will reach the same conclusion as our PRC Legal Advisers.

SAFE Circular 37

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "SAFE Circular 37") on July 14, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC resident to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or swap, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle maybe restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

On February 13, 2015, SAFE released the Notice on Further Simplifying the Improving Policies for the Foreign Exchange Administration of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the "SAFE Circular 13"), which became effective from June 1, 2015. According to SAFE Circular 13, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37. However, there exists uncertainties with respect to its interpretation and implementation by governmental authorities and banks.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

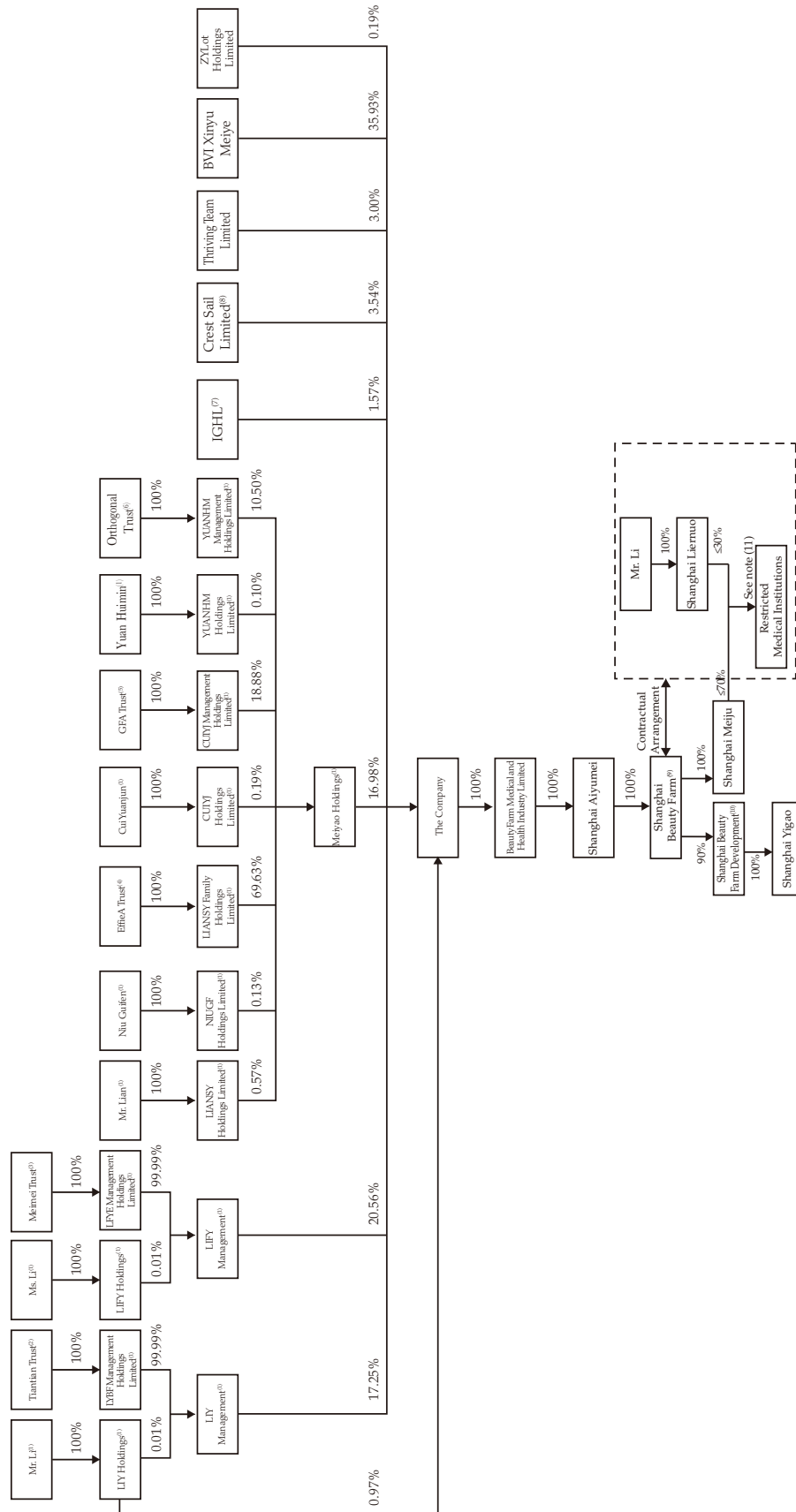
As advised by our PRC Legal Advisers, each of Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun and Yuan Huimin, being our Controlling Shareholders who are PRC residents and indirectly holds shares in our Company, have completed the registration for their respective investments in our Company under SAFE Circular 37 and SAFE Circular 13 on February 22, 2022.

Corporate Structure and Reorganization

Our Reorganization has been completed in accordance with applicable laws and regulations in all material respects. Pursuant to the Administrative Measures for the Outbound Investment of Enterprises (企業境外投資管理辦法) and the Measures on the Administration of Overseas Investments (境外投資管理辦法) (collectively, the “**ODI Rules**”), promulgated by the National Development and Reform Commission and the Ministry of Commerce respectively, a domestic institution shall undergo approvals or record-filing as well as other procedures with the relevant authorities prior to its overseas investment in accordance with the provisions of the ODI Rules. Our PRC Legal Advisers are of the view that the Reorganization steps conducted in the PRC were substantially completed in all material respects. Shanghai Xinzhi Yuyuan Enterprise Management Partnership (Limited Partnership), being the parent who wholly-owns BVI Xinyu Meiye, has obtained all necessary PRC regulatory approvals or PRC record-filing in accordance with the ODI Rules and has remitted funds to pay for the preferred shares held by BVI Xinyu Meiye.

OUR STRUCTURE IMMEDIATELY PRIOR TO THE GLOBAL OFFERING

The following chart sets forth our Group's simplified corporate structure immediately prior to the completion of the Global Offering:



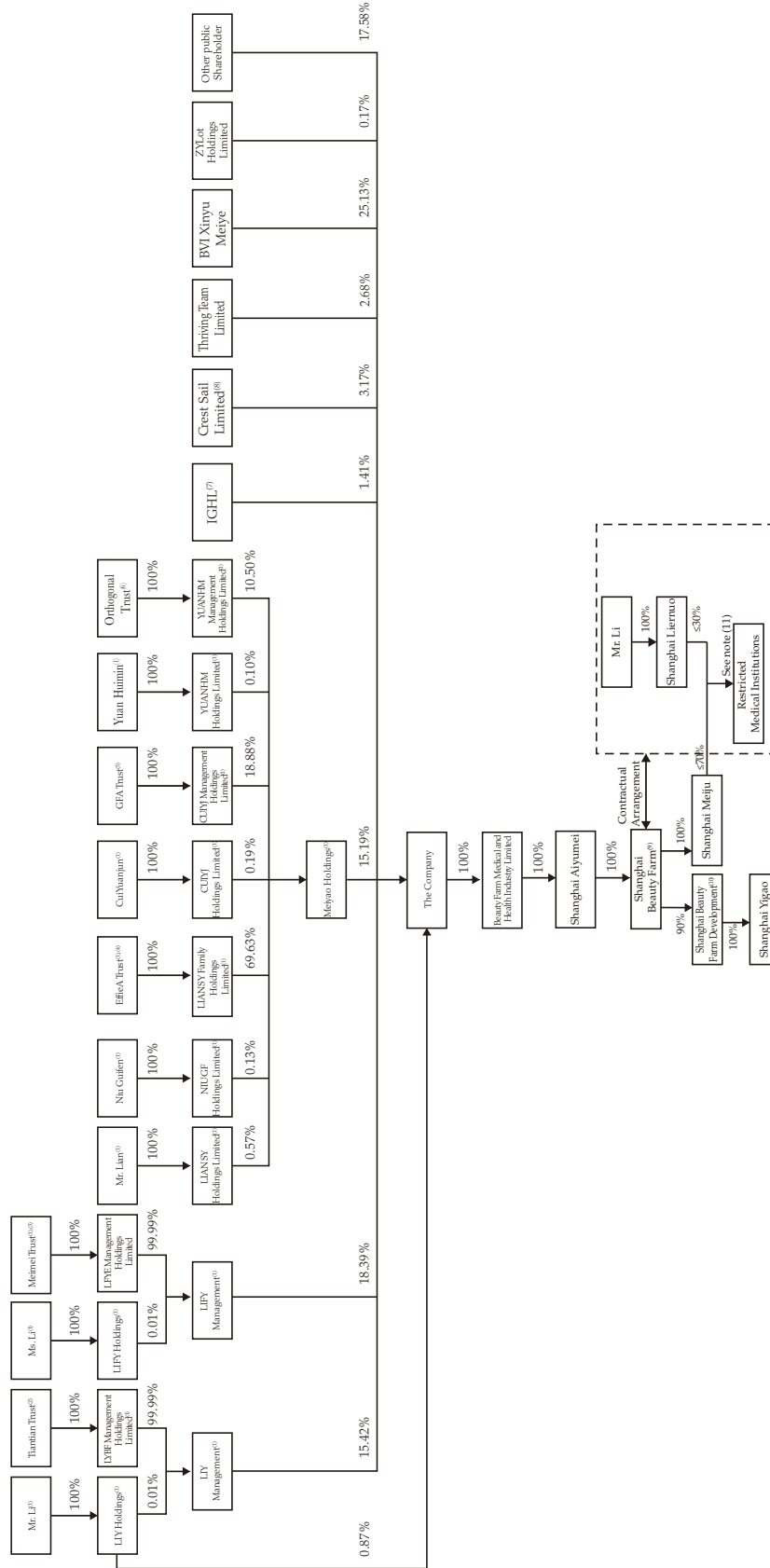
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) Denotes parties that are Controlling Shareholders.
- (2) Tiantian Trust is a family trust established by Mr. Li.
- (3) Meimei Trust is a family trust established by Ms. Li.
- (4) EffieA Trust is a family trust established by Mr. Lian.
- (5) GFA Trust is a family trust established by Cui Yuanjun.
- (6) Orthogonal Trust is a family trust established by Yuan Huimin.
- (7) IGHL is an employee shareholding platform, for further details, please refer to the paragraph headed “— Employee Incentive Platform — IGHL” in this section.
- (8) Crest Sail Limited is an employee shareholding platform, for further details, please refer to the paragraph headed “— Employee Incentive Platform — Crest Sail Limited” in this section.
- (9) We have a complex group structure due to our historical developments, strategic business developments, nature of the beauty and health management service industry is operated in the PRC and geographical coverage of our business operations. The corporate structure presented has been simplified, please refer to note 38 in “Appendix I — Accountant’s Report” to this prospectus for further details on our subsidiaries.
- (10) Shanghai Qibeixu is an employee incentive platform established by our Group and controls 10% of the equity interest in Shanghai Beauty Farm Development. For further details, please refer to the paragraph headed “Corporate Development — Other principal subsidiaries” in this prospectus.
- (11) For details of our Restricted Medical Institutions, please refer to the paragraphs headed “Contractual Arrangements — Our Contractual Arrangements” in this prospectus.

OUR STRUCTURE IMMEDIATELY FOLLOWING THE GLOBAL OFFERING

The following chart sets forth our Group's corporate structure immediately after the Global Offering (assuming no exercise of the Over-allotment Option):



Note: See the notes to "Our Structure Immediately Prior to the Global Offering" in this section.

OVERVIEW

We are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021. Our diversified service offerings cover traditional beauty services, aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services) as well as subhealth assessment and intervention services that are all personalized to serve our clients' health and beauty desire. We operate multiple chain brands in China's beauty and health management service industry, including BeautyFarm (美麗田園), our flagship brand established in 1993, and three other brands, namely, Palaispa (貝黎詩), Neology (研源) and CellCare (秀可兒). We have built a national direct store network, which consisted of 177 direct stores including 84 stores in tier-one cities and 73 stores in new tier-one cities, as of June 30, 2022. In addition, our extensive national store network included additional 175 stores operated by our franchisees as of the same date.

According to Frost & Sullivan, driven by the increasing disposable income *per capita* of Chinese population and elevated self-awareness of appearance, the size of China's traditional beauty service market reached RMB403.2 billion in 2021, and is projected to grow at CAGR of 5.3% to RMB640.2 billion in 2030. The size of non-surgical aesthetic medical service market reached RMB97.7 billion in 2021, and is forecasted to reach RMB415.7 billion in 2030, with a CAGR of 17.5% from 2021 to 2030, according to the same source.

We provide standardized services to our clients across all of our stores. Supported by our proprietary in-house training system, digitalized platform and supply chain management, we are able to trace and monitor our service performance in a timely manner. Our client visits increased from 819,382 in 2019 to 1,054,952 in 2021 at a CAGR of 13.5%. Many clients became our members after their initial visits, and we consider our enlarging group of active members as the foundation to our success. In 2021, our direct stores had 77,356 active members (defined as those members who used our services at least once during the relevant period. For example, the active members in 2021 refer to those members who used any of our services in the year ended December 31, 2021) which increased by 12.5% from 2020. Those active members on average made 10.8 visits and spent RMB20,832 in 2021 as compared with 10.2 visits and RMB20,151 average spending in 2020. During the six months ended June 30, 2022, our direct stores served 60,956 active members, who on average made 5.9 visits and spent approximately RMB10,736.

We believe that our following attributes are critical to our brands and large client base:

- *Nationwide store network.* As one of the domestic chain brands in China's beauty and health management service industry, we have provided traditional beauty services to clients for nearly three decades. We have established the most extensive store network in China in terms of the number of cities covered by direct stores in the traditional beauty service market, as of June 30, 2022, according to Frost & Sullivan. Additionally, we have provided

aesthetic medical services under CellCare (秀可兒) since 2011 and subhealth assessment and intervention services under Neology (研源) since 2018. As of June 30, 2022, our overall service network comprised 352 stores, including 177 direct stores as well as 175 franchised stores. Among the 177 stores we were directly owned, 84 stores were located in tier-one cities and 73 stores were located in new tier-one cities. As of June 30, 2022, we had 154 direct stores and 175 franchised stores providing traditional beauty services under BeautyFarm (美麗田園) and Palaispa (貝黎詩), 18 direct stores providing aesthetic medical services under CellCare (秀可兒), and five stores providing subhealth assessment and intervention services under Neology (研源).

- *Digitalization.* We apply digitalized tools to provide clients with personalized services and to improve operational efficiency. We had developed 37 proprietary information management systems as of the Latest Practicable Date. Our integrated service platform is capable of consolidating and processing operational data accumulated from various systems across our store network. We also apply data mining and data analytics to obtain valuable insights to profile our clients' transaction patterns, consumption habits, and lifetime client value. Such tech-enabled enhancements allow us to customize our services according to clients' needs so as to maintain their stickiness and identify cross-selling opportunities. In addition, we are one of the earliest adopters of mobile reviewing system, where our clients are able to review and comment on our services in real-time. Moreover, our digitalized client relationship management (“CRM”) system is thorough, convenient and prompt, offering a fast feedback mechanism for client inquiries, appointments, complaints and post-service reviews.
- *Service Personnel.* Our service personnel at our stores are vital to the quality of our services and our competitiveness. As of June 30, 2022, we had a total of 1,898 service personnel (including registered physicians, trained therapists, nurses, and store directors) nationwide. We have established two BeautyFarm Training Centers (美麗田園培訓中心) in Shanghai and Wuhan, which provide our service personnel with pre-work and ongoing training. Since their establishment, our BeautyFarm Training Centers (美麗田園培訓中心) have provided over 13,000 sessions to our service personnel.

Our business grew continuously in 2019, 2020 and 2021. Our total revenue increased by 7.0% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020, and further increased by 18.5% to RMB1,780.7 million in 2021. Due to the adverse impact of Recurrence of COVID-19 in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022. We recorded a net profit of RMB147.4 million in 2019, RMB152.2 million in 2020, and RMB208.3 million in 2021 at a CAGR of 18.9% from 2019 to 2021. Excluding the effects of share-based compensation expenses and listing expenses, our adjusted profit (non-HKFERS measure) for the six months ended June 30, 2021 and 2022 would be RMB108.0 million and RMB50.6 million, respectively.

OUR STRENGTHS

Beauty and Health Management Service Provider With Diversified Brand Portfolio in China

We are a leading player in the broad beauty and health management service industry. In particular, we are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021 and according to Frost & Sullivan. Leveraging 29 years of industry experience and adapting to evolving client demand, we provide overall beauty and health management services through our well-established and widely recognized brand portfolio of BeautyFarm (美麗田園), Palaispa (貝黎詩), CellCare (秀可兒) and Neology (研源). We first win client trust through our traditional beauty services, and then extend to more sophisticated services, such as aesthetic medical services and subhealth assessment and intervention services, across the full client lifecycle. Our leading position in China's beauty and health management service industry is demonstrated by various indicators:

- *Large and loyal client base.* Our success comes from our focus on developing a strong connection with our clients, many of whom became our members after their initial visits. In 2021, our direct stores served 77,356 active members, which increased by 12.5% from 2020. Our active members from direct stores on average made 10.8 visits and spent RMB20,832 in 2021 as compared with 10.2 visits and RMB20,151 average spending in 2020. During the six months ended June 30, 2022, our direct stores served 60,956 active members, who on average made 5.9 visits and spent approximately RMB10,736. In addition to our growing active members in direct stores, our franchised stores served 27,916 and 22,552 active members in 2021 and the six months ended June 30, 2022, respectively.
- *Extensive network with expansion efficiency.* Through organic growth and acquisitions, as of June 30, 2022, we had 177 direct stores nationwide, including 84 stores in tier-one cities and 73 stores in new tier-one cities. Most of our stores are strategically located in prime locations with high client traffic. In 2021, we achieved high annual revenue per store in tier-one cities, amounting to RMB11.8 million, with a same-store growth rate of 19.3% from 2020. Our revenue per store in tier-one cities amounted to RMB4.3 million in the six months ended June 30, 2022. Contributed by our long-term business relationship with prime shopping malls and our ability to bring strong footage to the venue, we have strong bargaining power over high-traffic and high-exposure booths, which is also conducive to our further expansion. Moreover, we are efficient in opening stores. The typical lead time from the completion of site selection to store opening is approximately three months. Our brand awareness and strategic localized marketing activities also greatly facilitate store ramp-ups. From 2014 to June 30, 2022, a new traditional beauty service store on average achieved initial breakeven in approximately eleven months after commencement of operation.

- *Diversified services and product offerings.* Our beauty and health management service offerings cover aesthetic medical services as well as subhealth assessment and intervention services that are all personalized to serve our clients' health and beauty desire. As of the Latest Practicable Date, we offered a wide range of beauty and health management services, covering 47 categories of service procedures and over 800 SKUs across the full client lifecycle.
- *Strong brand awareness.* Since our inception, we have received a number of high-profile awards and recognitions, including Fashion COSMO Beauty Chain of the Year Award (時尚COSMO年度美容連鎖機構大獎), Fashion COSMO Talent Recommended Brand of the Year Award (時尚COSMO年度達人推薦品牌大獎), New Classic Brand of the Year (年度煥新經典品牌), Popular Brand of the Year (年度人氣品牌), Most Popular Brands for Women (最受女性歡迎品牌) and Shanghai Hair and Beauty Five-star Enterprise (上海美髮美容五星級企業).

Constant Evolution of Business Model in Response to Market Demand, Offering Clients Overall Beauty and Health Management Services

We win the client trust initially through our traditional beauty services. With insights into our clients' increasingly diversified demand accumulated through years of services, we have extended our offerings by providing more sophisticated services such as aesthetic medical services since 2011. It soon became our second curve of revenue growth, generating revenue of RMB673.0 million in 2021 which represented 37.8% of our total revenue for the year. Thereafter, we quickly became aware of the rising demand of subhealth assessment and intervention services as a result of consumption upgrade and China's rising prevalence rate of subhealth status, and accordingly commenced to build our subhealth assessment and intervention service capacity in 2018. We, together with several renowned experts in subhealth assessment and intervention service market, built our well-founded service capability. And the subhealth assessment and intervention services have become the third pillar to support our future growth, generating revenue of RMB60.9 million, or 3.4% of our total revenue, in 2021.

We believe our long history in traditional beauty services has positioned us uniquely in the industry and fueled our revenue growth without significant increase in customer acquisition costs as we have become many members' lifelong trusted advisor on health and beauty. Through traditional beauty services, we become aware of our members' health concerns on themselves and their family members, nutritional balance problems and subhealth assessment and intervention needs, which all enable us to provide additional service packages precisely targeting such demand. 21.7% and 21.2% of members of our traditional beauty services in 2021 and the six months ended June 30, 2022, respectively, purchased aesthetic medical services or subhealth assessment and intervention services, which is expected to further grow in the future. Likewise, our expansion of aesthetic medical services and subhealth assessment and intervention

services can also further boost the growth of traditional beauty services going forward. These service offerings complement each other and create a synergistic effect for our overall operations.

Standardized Services Supported by Digitalized Platform

We have established an integrated service platform to ensure high-quality services to our clients in a consistent manner across all stores. Our digitalized platform is supported by standardized operating procedures and digital infrastructure covering stringent quality control, training system and supply chain management. The standardization and digitalization of our business platform provides scale advantages across various aspects of our operations that can be leveraged by our stores and service personnel as described below:

- *Standardized procedures and stringent quality control.* We have established a comprehensive service protocol, internal control and quality control system. We have set standards and specifications covering more than 100 key aspects of our store operations, including inventory management, service preparation, treatment procedures, service standards, employee conduct, as well as our staff training and store hygiene. The operational guidelines and unified service standards are applied to all stores in our network, covering both direct and franchised stores. We conduct service quality control and special inspections regularly, such as mysterious shopper and member monitoring. Our nationwide store operation supporting system is able to create comprehensive client tags to break through the information barrier that is common in the industry. Such integrated information has also achieved synergy among different brands. In addition, we are one of the earliest adopters of mobile reviewing system, where our clients are able to review and comment on our services in real-time. We also categorize procedures by client preference and have different levels of procedures and standards for each category.
- *Experienced service staff supported by our training system.* The high professionalism of our service staff ensures the stability of our service delivery. Supported by our training system, we have assembled a team of experienced service personnel. Among all the service personnel who have stayed with us for more than one year, they have an average of 6.1 years of retention, putting us ahead of our competitors. We have built “BeautyFarm Training Center (美麗田園培訓中心)” in Shanghai and Wuhan, where our service personnel could learn service procedures and improve their service quality. Our employees are required to participate pre-work training and will participate another session prior to their promotions or introduction of new services. We also provide progression opportunities to our employees. For example, we have off-the-job trainings for service personnel to help them formulate their career paths and grow into a management role. In addition, our employee development model enables us to track the career path of our employees. This system automatically captures the training programs and seminars attended and the service hours achieved by each employee, and

recognizes staff talent through comprehensive analysis generated from clients' feedback. Through our comprehensive training scheme, our average monthly net promoter score (defined as the willingness of clients to recommend our products and services) achieved 85.5% and 87.4% in 2021 and the six months ended June 30, 2022, respectively, reflecting a high level of client satisfaction. According to Frost & Sullivan, we achieved one of the few highest service personnel annual retention rates of 74.0% in 2021 within the beauty and health management service industry.

- *Supply chain management capabilities.* Our platform is equipped with industry-leading supply chain management capabilities, including prudent equipment and product selection and strict quality control on suppliers. We selectively pick our products used during the service procedures from leading global suppliers with approximately 90% of products being imported. We have been the business partner of choice in China for several international skincare brands. In particular, we have established strong and long-standing relationships with a diverse base of suppliers, and some of our suppliers have a stable relationship with us for more than a decade. We screen products and conduct product testing on all imported products for months before launching them. Under our internal system, we implement a strict supplier qualification process that includes supplier selection and procurement control. We have formulated detailed specifications for products and consumables we procure. Our real-time inventory management enterprise resource planning (“ERP”) system, which was fully launched in November 2020, controls the entire process of procurement, sale and distribution from warehouse to stores. Such digitalized system enables us to timely and sufficiently stock up our stores, optimize our inventory levels and limit overall wastage, thereby enhancing the overall performance of our stores and ensuring consistent quality control.
- *Client lifecycle management and regional development.* We have a client analysis model which boosts our client lifecycle management. Powered by our digitalization capabilities, we apply data mining and data analytics to obtain valuable data insights into our clients to profile their service patterns and behavioral preferences, maintain their visit stream and identify cross-selling opportunities. Through our efficient client management, our average monthly net promoter score achieved 85.5% and 87.4% in 2021 and the six months ended June 30, 2022, respectively. 80.7%, 82.1%, 84.6% and 77.0% of our active members in 2019, 2020, 2021 and the six months ended June 30, 2022 made multiple purchases of our services in the same period, respectively. In addition, we have regional development model, which provides us with deep data analysis for our acquisition strategies. The analysis indicators mainly include the purchasing power of members, the number of members to be acquired, and the staff service capabilities of the acquired targets. For instance, through the regional development model, we proceed to open a CellCare (秀可兒) store or Neology (研源) healthcare center in a city where we see clear and sufficient demand of aesthetic medical services and subhealth assessment and intervention services from our existing traditional beauty service clients in the same city.

Our platform-based operating model allows us to standardize various aspects of our operations to improve both client experience and the service performance of our service personnel. As of the Latest Practicable Date, we had developed 37 proprietary information management systems covering different aspects of our operations with 78 IT personnel dedicated to continuous digital iteration. In addition, as we continue to accumulate and analyze digital information from our day-to-day business operations, we can further improve our operational efficiency.

A Large Client Base of Active Members Supported by Our CRM System

Our clients are at the core of our business. Our comprehensive service offerings have attracted a large base of active clients. They enjoy high spending power, and constantly pursue healthy lifestyle and physical appeal. In 2021, our direct stores served 77,356 active members, which was increased by 12.5% in 2020. Our active members from direct stores on average made 10.8 visits and spent RMB20,832 in 2021 as compared with 10.2 visits and RMB20,151 average spending in 2020. During the six months ended June 30, 2022, our direct stores served 60,956 active members, who on average made 5.9 visits and spent approximately RMB10,736. 80.7%, 82.1%, 84.6% and 77.0% of our active members in 2019, 2020, 2021 and the six months ended June 30, 2022 made multiple purchases of our services in the same period, respectively. In addition to our increasing client volume in direct stores, our franchised stores served 27,916 active members in 2021 and 22,552 active members in the six months ended June 30, 2022.

We have established an in-depth understanding of our clients' needs over the course of our 29 years of operation, which gives us an advantage in delivering an exceptional client experience. We have amassed a massive amount of client data, encompassing over 96 distinct client tags currently. Our industry insight enables us to maintain a strong attachment with our clients, which has helped us to develop and discover additional demands in beauty and health management service industry and enables us to provide services based on our clients' demands. Furthermore, 71.5% of our active members in 2019 made additional purchases during the Track Record Period.

Our large client base is supported by a comprehensive client service system. We have a professional team who regularly conducts in-depth research and inquiries to optimize high-quality services to meet various client needs. Our CRM system covers a prompt response mechanism for inquiries, appointments, complaints and post-service reviews. Our members can also request for transferring or changing account managers directly online. We have a client-oriented system to recognize service fees only after the client is satisfied with the services we performed.

Sustainable Development Supported by Organic Growth and Strategic Acquisitions

We have a proven track record of rapidly expanding our geographic footprint across China and have achieved rapid and sustainable business growth through both organic growth and strategic acquisitions. The scalability and replicability of our business is evidenced by our ability to open new stores rapidly. We opened 45 new direct stores during the Track Record Period. Contributed by our long-term business relationship with prime shopping malls and our ability to bring strong footage to the venue, the typical lead

time from the completion of site selection to store opening is approximately three months. We are able to ramp-up our new stores and achieve profitability efficiently. From 2014 to June 30, 2022, a new traditional beauty service store on average achieved initial breakeven in eleven months after commencement of operation.

In addition to organic growth, strategic acquisitions play a critical role in our business growth. We experienced a successful track record of identifying, acquiring and integrating stores into our network. We have completed 20 acquisitions in beauty and health management service industry from 2014 to June 30, 2022, most of which have successfully enhanced our business offerings and management team. Upon the completion of integration, acquired stores typically witness improved business performance and rapid client expansion. For example, the acquisition of Palaispa (貝黎詩) shows our acquisition power and our capabilities in integration. Revenue generated from Palaispa (貝黎詩) members and franchisees increased from RMB102.4 million in 2017 to RMB185.7 million in 2021 at a CAGR of 16.0%. Those acquired stores were smoothly integrated into our network, ensuring further synergies and value creation. Going forward, we will continue to identify and evaluate acquisition opportunities in high-quality stores to capture growth opportunities, and may seek liability protection or indemnity from the sellers from time to time.

Visionary and Seasoned Management With Strong Shareholder Support

Our success is attributable to our visionary and dedicated management with extensive industry experience. Our chairman of the Board, Mr. LI Yang, has extensive business leadership experience and industry insight. With a clear vision of the industry, Mr. Li foresaw the vast future prospects of the beauty and health management service industry and developed the BeautyFarm (美麗田園) brand. Our Chief Executive Officer and vice chairman, Mr. LIAN Songyong, has been working in China's beauty and health management service industry for nearly two decades. With rich experience in investment and integration, he has completed the investment and restructuring of several domestic and international listed companies. He has also successfully invested in and acquired several beauty and health management service chain stores in China, contributing to the development of the entire industry.

Under the leadership of our outstanding management team, our brand values and corporate culture were highly recognized by our clients and our employees. During the outbreak of COVID-19 pandemic in 2020, we set an example for our industry by quickly responding to the situation and providing disinfection supplies to our clients and employees. We also promised all employees no layoffs and no pay cuts, while our management team took voluntary pay cuts in 2020. This protected our employees, rallied our team, and facilitated the quick recovery of our operations during the pandemic. Despite the COVID-19 outbreak in 2020, our revenue still experienced a growth of 7% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020.

In addition to our management team, we benefit tremendously from the strong support of our Shareholders. Since 2013, CITIC PE, who has extensive experience managing and growing companies in the beauty and health management service industry, has been working closely with our committed management team to establish a

standardized and disciplined chain business with nationwide footprint and has provided invaluable guidance for our value creation strategy and sustainable growth. For example, CITIC PE implemented strategic adjustment with the management team which includes strengthening the coverage in services, actively exploring the subhealth assessment and intervention services to further enhance our service offerings and leading strategic acquisitions to supplement organic growth. CITIC PE also contributed to building our current management team, including several C-suite officers and many regional managers. In addition, branding, design, financial management and supply chain management have also been enhanced by CITIC PE's value-added service team.

OUR STRATEGIES

Strategically Expand Our Service Network and Marketing Channels to Expand Our Client Base and Increase Brand Awareness

Leveraging our proven track record and scalability of our business model of direct stores and franchised stores as well as acquisition strategies, we intend to strengthen our leading position and further expand our client base in core cities.

- *Upgrading existing stores.* To provide our clients with exceptional client experience and attract new clients, we plan to upgrade our beauty and health management service offerings in core cities, such as Beijing and Shanghai, by establishing large stores with better and more comprehensive services. In addition, we will regularly renovate our existing stores and upgrade the related infrastructure to maintain the high quality of our service environment, which in turn will improve client experience. We are also dedicated to providing beauty and health management service solutions for our clients and continuing to meet additional service needs.
- *Establishing new stores.* In cities and areas where we have existing presence and established brand awareness, we plan to open more stores to attract new clients and strengthen our position in such areas. We will open stores with different sizes strategically based on our existing presence and client bases in the specific locations. We plan to establish large comprehensive center which is expected to support small-size or newly opened stores in surrounding areas to create synergies among various stores. In determining whether to open direct store or franchised store, we will consider various factors, such as our development strategies in the particular city or region and the service portfolio of the stores we plan to open. For example, we would choose to open a direct BeautyFarm (美麗田園) store in tier-one and new tier-one cities and a direct Palaispa (貝黎詩) store in tier-one cities to leverage our existing network there and capitalize on unmet demands of clients with high-spending power in these cities, and to avoid cannibalization with our franchised stores, which are largely located in other cities. When expanding our aesthetic medical service or subhealth assessment and intervention service network, we would like to open a direct CellCare (秀可兒) store or Neology (研源) healthcare center, which are operated exclusively under our direct store model.

- *Strategic acquisitions.* We will also consider acquiring stores that have demonstrated track record of performance in our targeted areas, in order to increase our market penetration rate and client base, and strengthen our leading position in such areas. We consider factors including the target's influence in local areas, its existing client base, quality of management and service team, valuation and investment amount required. Acquisition targets include stores within our franchised store network as well as external stores under other brands. In the latter case, we re-brand acquired institutions to bring them in line with our existing standards. As advised by Frost & Sullivan, as beauty and health management service industry is growing fast, there are adequate potential acquisition targets available in the market that satisfy our criteria. While we are actively identifying opportunities, as of the Latest Practicable Date, we had not signed any agreements with respect to acquisition of stores or had not identified any definite acquisition targets.

In addition to the expansion plans as illustrated above, we will utilize a combination of online and offline channels to promote our brand and services. Currently, our stores are mostly located in core business districts with high client traffic volume of our potential clients, e.g., mid-to-high-end clients, who value more on their general well-being and physical appeal. Leveraging our advantages in store locations, we will optimize our advertising and marketing strategies, such as offering promotions and new client discounts during shopping festivals to attract clients. Furthermore, we plan to continue to collaborate with large social media to raise our brand awareness and consumers' acceptance of beauty and health management services. We will also promote our services through live streaming and strategic cooperation with reputable companies in order to reach a broader client base.

Further Enhance Our Operational Efficiency and Client Experience Through Standardization and Digitalization of Our System

We are fully aware of the importance of information technology to our business. We understand that establishing an advanced, standardized and digitalized operational system is the cornerstone of our efforts to achieve operational efficiency across different departments, stores and brands.

- *Enhance standardization.* We are dedicated to enhancing our level of standardization. Specifically, we will further develop the mandatory training and assessment to our employees, closely monitor our stores through real time digital system, regularly inspect the operations of our stores, and strictly manage and monitor the quantity and quality of franchised stores. For example, we have adopted and will continue to improve our mysterious shopper inspection mechanism by inviting clients to visit our stores and secretly evaluate metrics, such as client service, store hygiene and product quality. We plan to increase the frequency of mysterious shopper inspections of our traditional beauty services to bi-monthly, and start to conduct mysterious shopper inspections of our aesthetic medical services bi-monthly by service categories and service phases. We will carefully evaluate the

mysterious shopper inspection results and improve our services accordingly. By way of occasional inspections, we will further strengthen our standardized client services.

- *Improve CRM system.* We will further improve our CRM system, to ensure that the client feedbacks are actively collected and responded, and members are well managed, so that we can increase clients' adherence. We will also enhance the collection, sharing and real-time presentation of client data (after properly desensitization, if needed) among our stores across the country to better understand and personalize client' needs and preferences, so that we can cater to varying demands from a broad client base, and capture business opportunities from our clients. Furthermore, utilizing such well-organized client database, our client managers can properly and more effectively recommend our aesthetic medical services and/or subhealth assessment and intervention services to clients having traditional beauty services, or vice versa, and in turn achieve better utilization of the marketing expenses.
- *Enhance operating efficiency and encourage innovations.* We will continue to invest in technology, with a focus on store management systems and data analytic capabilities. We will improve the store management system by further optimizing inventory management capabilities and improving the efficiency of service personnel to ensure service quality. We will also continue to leverage on data analytics to improve our service quality, product recommendation and inventory prediction to provide targeted services and better customer experience. Leveraging our in-depth understanding and accumulated knowledge of clients' needs, we will continuously develop innovative service offerings and improve our existing services and products.

Improve Client Loyalty and Fulfill Clients' Evolving Needs by Introducing New Technologies, Equipment and Products, and Expanding Our Service Offerings

We operate in an industry which is driven by rapid technological advancements. In order to remain competitive, we will introduce innovative technologies, advance the development of innovative products and cooperate with other institutions to better satisfy our clients' needs.

- *Traditional beauty services.* To better meet our clients' needs, we have been continuously developing body care services as supplement to the facial skincare service offerings to our clients, such as lymphatic drainage massage and meridian massage. We will continue to expand our traditional beauty services in the future. For example, to meet the evolving demands from our clients, we plan to cooperate with professional health care institutions in Europe and bring in specialized skincare equipment from Europe. We aim to constantly iterate and upgrade our facial and body care equipment and develop a variety of add-on services. In particular, we plan to continue to introduce body negative pressure pump massage equipment from Europe which could work through different negative pressure on the skin epidermis, dermis and subcutaneous tissue to reduce cellulite, improve body contouring, promote metabolism and enhance blood and lymphatic circulation.

- *Aesthetic medical services.* We will continue to track and introduce new materials to our services, and strengthen our collaboration with industry-leading biotech companies. In the meantime, we are dedicated to upgrading our existing technologies in aesthetic medical service procedures. We will closely monitor the upgrading of existing products and technologies, and introduce upgraded products, technologies, and equipment when available. We aim to expand our service offerings in aesthetic medical services, which we believe will further improve our client stickiness. We believe that client loyalty and cross-selling capabilities will be further improved by combining different service offerings.
- *Subhealth assessment and intervention services.* Subhealth assessment and intervention services will be one of our focuses in our expansion plan as we believe there is much synergy between it and our current service offerings. We will increase our investment in subhealth assessment and intervention service business. We plan to establish subhealth assessment and intervention service network in large cities. We believe there is huge potential in large cities given their sizable population and strong spending power *per capita*. In addition, since we have established brand awareness and considerable client base, it would be easier for us to explore new services in large cities. We will continue to improve our subhealth assessment and intervention service capability by optimizing our technologies, strengthening our research and development on technical patents, and expanding the scope of services that we offer.

Continue To Cultivate, Recruit and Retain High-Caliber Talent and Strengthen Our Human Resources Management Mechanism

Our 177 direct stores were located in 22 cities across the country as of June 30, 2022. We believe a high-caliber team of service personnel and well-established human resources management mechanism are critical to our efficient operations and sustainable development. We will continue to place great emphasis on the training of our employees, including but not limited to, physicians and trained therapists. In the meantime, we also plan to continue to source and attract qualified service personnel from extensive channels.

We have established two BeautyFarm Training Centers (美麗田園培訓中心) in Shanghai and Wuhan to cultivate trained service personnel for our traditional beauty services. We plan to expand the size of our BeautyFarm Training Centers (美麗田園培訓中心) and introduce new curriculums. We intend to expand curriculums in BeautyFarm Training Centers (美麗田園培訓中心) and offer additional training to our physicians and nurses in the future.

In addition to internally trained service personnel, we plan to attract and recruit more service personnel among referrals from our employees, upstream and downstream partners and industrial experts, as well as through internet recruitment. Furthermore, we will continue to supplement our internal staff training by, for instance, periodically holding lectures, seminars and training sessions jointly with industrial experts. Leveraging our advantages in sizable talent pool of experienced service personnel, we

will design and establish an internal online knowledge-sharing platform for our employees, so that they can share practical knowledge and tips with other colleagues and optimize our services to the clients.

We will build a country-wide, systematic human resource management mechanism, to maintain a high level of cohesion and synergy among our employees in different cities and stores. We will further strengthen our corporate culture to improve organizational innovation and enhance organizational capabilities. As part of our human resources strategy to maintain and attract qualified talent for beauty and health management services, we will continue to offering employees competitive salaries, clear career path and other incentives.

Integrate Industry Resources and Promote the Development of Industry Standards by Deepening Cooperation With Upstream Suppliers and Sharing Our Industry and Management Experience

We will effectively integrate our supply chain resources and deepen our cooperation with upstream suppliers, especially the leading international suppliers and brands. For example, we will provide our upstream partners with stable sales channels in exchange for pioneering exposure to advanced technologies in the industry, which technologies will in turn enhance our service quality.

In order to integrate industry resources, and to create new business opportunities, we plan to offer support to local traditional beauty service providers, especially smaller standalone community stores with stable client base, by sharing our industry experience and platform management skills. For example, we may explore sharing part of our information system modules and our self-developed point of sales (“POS”) system, which was designed with our industry expertise, with small market participants to help them improve their operation efficiency and level of standardization. We may also consider providing human resource support to small market participants and help them with recruiting, training and creating an organizational structure. BeautyFarm Training Center (美麗田園培訓中心) is also expected to function as a service personnel hub, which can provide systematical training to traditional beauty service stores beyond our own store network. Moreover, we also plan to actively participate in pilot projects to improve industry standards. By providing support, such as products, services, equipment and technologies, to these smaller market participants, we are better able to create synergies with these small market participants, and identify and differentiate potentially valuable targets for our future acquisitions or investments.

In view of the market recognition on our brand and services, we also plan to participate in pilot projects to help developing the industry standards, with the aim of promoting consistent and high quality services, which in turn will help strengthen our brand image and attract more clients and talent.

BUSINESS

OUR BRANDS

As of June 30, 2022, we had 177 direct stores and 175 franchised stores nationwide. Our store network consists of our flagship BeautyFarm (美麗田園) brand, as well as three other brands such as Palaispa (貝黎詩), CellCare (秀可兒), and Neology (研源). Among them, BeautyFarm (美麗田園) is one of the domestic chain brands since 1993. The following table summarizes our material brands that we actively used during the Track Record Period and up to the Latest Practicable Date:

Name of the brand	Direct store number as of June 30, 2022	Service focus	Business model
 美麗田園 Beauty Farm BeautyFarm (美麗田園)	139	Traditional beauty services	Direct store and franchised store
 Palaispa (貝黎詩)	15	Traditional beauty services	Direct store and franchised store
 CellCare (秀可兒)	18	Aesthetic medical services	Direct store
 Neology (研源)	5	Subhealth assessment and intervention services	Direct store
Total	177		

BUSINESS

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
BeautyFarm (美麗田園)	675,978	48.1	696,252	46.4	855,966	48.1	381,809	45.6	351,977	48.0
Palaispa (貝黎詩)	83,848	6.0	60,756	4.0	85,391	4.8	41,414	4.9	31,067	4.2
CellCare (秀可兒)	464,586	33.1	564,076	37.5	673,025	37.8	338,634	40.5	275,556	37.5
Neology (研源)	64,353	4.6	91,110	6.1	60,931	3.4	28,984	3.5	30,720	4.2
Franchisee and others	115,987	8.2	91,102	6.0	105,427	5.9	45,989	5.5	44,998	6.1
Total	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0

The following table sets forth a breakdown of our gross profit and gross profit margin by brands for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit margin	%	Gross profit margin	%	Gross profit margin	%	Gross profit margin	%	Gross profit margin	%
	(Unaudited)									
BeautyFarm (美麗田園)	291,552	43.1	262,732	37.7	328,562	38.4	142,651	37.4	114,291	32.5
Palaispa (貝黎詩)	35,824	42.7	15,741	25.9	32,059	37.5	13,270	32.0	5,251	16.9
CellCare (秀可兒)	284,286	61.2	334,502	59.3	386,360	57.4	201,485	59.5	154,216	56.0
Neology (研源)	27,883	43.3	34,471	37.8	26,184	43.0	9,551	33.0	11,577	37.7
Franchisee and others	68,796	59.3	52,578	57.7	60,621	57.5	21,994	47.8	28,694	63.8
Total gross profit/overall gross profit margin	708,341	50.4	700,024	46.6	833,786	46.8	388,951	46.5	314,029	42.8

BUSINESS

BeautyFarm (美麗田園) and Palaispa (貝黎詩) are the two major brands of our traditional beauty services. BeautyFarm (美麗田園) focuses on daily facial services. By contrast, we integrated Palaispa (貝黎詩) through acquisition with its own design characteristics. Our Palaispa (貝黎詩) stores primarily focus on providing services to clients by using high-end facial care as well as European imported products, while BeautyFarm (美麗田園) stores primarily focus on the standardization of service quality to fulfill client's needs on a daily basis. Regarding its geographic coverage, Palaispa (貝黎詩) stores are mostly located in Beijing and Shanghai, while BeautyFarm (美麗田園) stores are also presented in tier-one cities and new tier-one cities. And BeautyFarm (美麗田園) generally targets a similar client base with Palaispa (貝黎詩). We adopt similar pricing within the traditional beauty service industry. However, the revenue contribution of BeautyFarm (美麗田園) is significantly higher than Palaispa (貝黎詩) due to the business scale of BeautyFarm (美麗田園). In particular, our Palaispa (貝黎詩) stores were more affected by the outbreak of COVID-19 pandemic in 2020 as a large number of Palaispa (貝黎詩) stores were located in Beijing, where our stores experienced a longer period of store closures due to the restriction on mobility. As a result, our revenue generated from Palaispa (貝黎詩) stores decreased from RMB83.8 million in 2019 to RMB60.8 million in 2020.

OUR SERVICES

During the Track Record Period, our revenue was mainly derived from the provision of (i) traditional beauty services, where we earn service fees directly from customers as well as franchise fees from franchisees. In addition, to a much lesser extent, we generated revenue from sales of skincare products (including product sales to consumers in direct stores, and to franchisee stores and others); (ii) aesthetic medical services (including both (a) non-surgical aesthetic medical services such as energy-based services and injection services and (b) surgical aesthetic medical services); and (iii)

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subhealth assessment and intervention services. The following table sets forth a breakdown of our revenue by service offerings for the periods indicated:

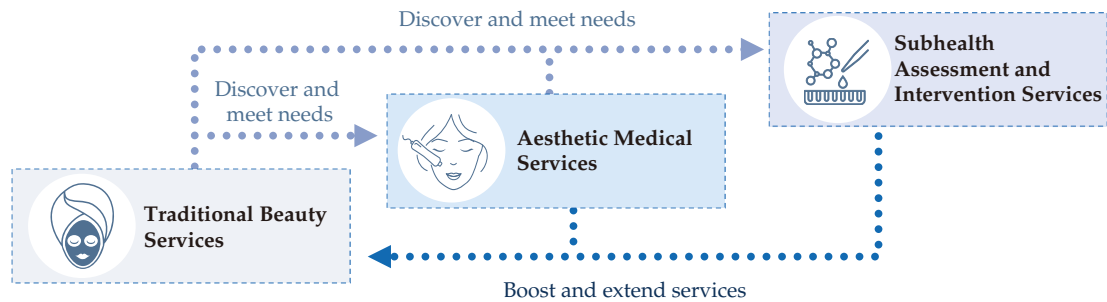
	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Traditional beauty services										
<i>Direct stores</i>										
– Services	717,358	51.1	680,727	45.3	857,295	48.2	391,244	46.7	352,654	48.1
– Product sales	42,468	3.0	76,281	5.1	84,062	4.7	31,979	3.8	30,390	4.1
<i>Subtotal</i>	<u>759,826</u>	<u>54.1</u>	<u>757,008</u>	<u>50.4</u>	<u>941,357</u>	<u>52.9</u>	<u>423,223</u>	<u>50.5</u>	<u>383,044</u>	<u>52.2</u>
<i>Franchisee and others</i>										
– Franchise fees	5,474	0.4	4,297	0.3	3,611	0.2	1,321	0.2	2,971	0.4
– Products sales	110,513	7.8	86,805	5.7	101,816	5.7	44,668	5.3	42,027	5.7
<i>Subtotal</i>	<u>115,987</u>	<u>8.2</u>	<u>91,102</u>	<u>6.0</u>	<u>105,427</u>	<u>5.9</u>	<u>45,989</u>	<u>5.5</u>	<u>44,998</u>	<u>6.1</u>
Aesthetic medical services	464,586	33.1	564,076	37.5	673,025	37.8	338,634	40.5	275,556	37.5
Subhealth assessment and intervention services*	<u>64,353</u>	<u>4.6</u>	<u>91,110</u>	<u>6.1</u>	<u>60,931</u>	<u>3.4</u>	<u>28,984</u>	<u>3.5</u>	<u>30,720</u>	<u>4.2</u>
Total	<u>1,404,752</u>	<u>100.0</u>	<u>1,503,296</u>	<u>100.0</u>	<u>1,780,740</u>	<u>100.0</u>	<u>836,830</u>	<u>100.0</u>	<u>734,318</u>	<u>100.0</u>

Note:

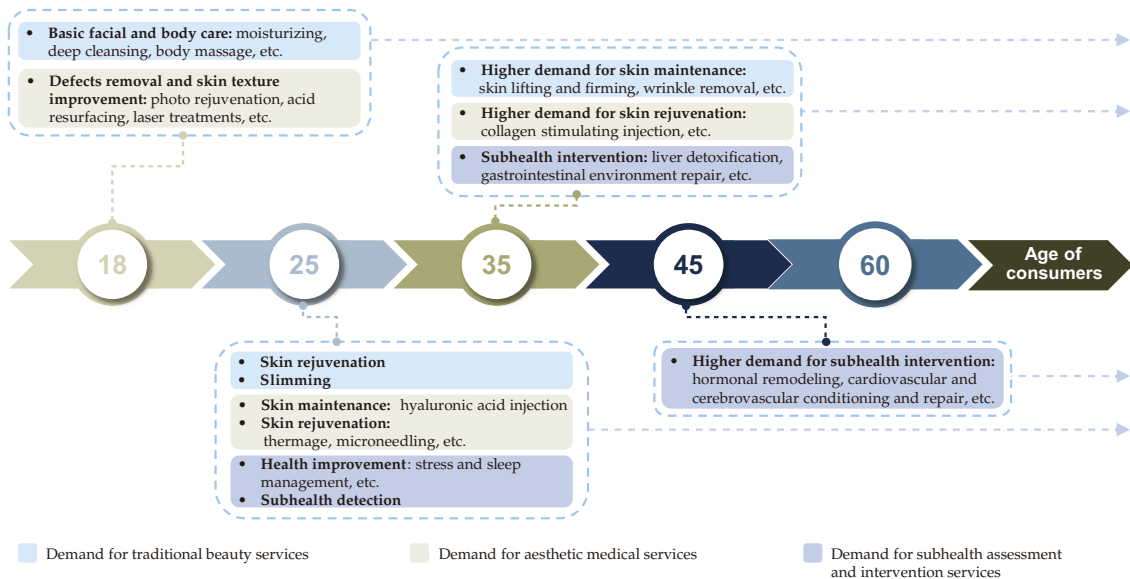
- * When analyzing per store performance and same-store sales, we exclude the cooperation fee in relation to subhealth assessment and intervention services (namely, RMB17.2 million in 2021 and RMB10.2 million in the six months ended June 30, 2022) as mentioned in the section headed “Connected Transactions” in the prospectus as it cannot be properly attributable to operation of any specific stores.

Synergies Between Our Services

Our beauty and health management service offerings cover aesthetic medical services as well as subhealth assessment and intervention services that are all personalized to serve our clients’ health and beauty desire. We first gain client trust from traditional beauty services, and then extend to more sophisticated services such as aesthetic medical services and subhealth assessment and intervention services. Our industry insight enables us to maintain a strong attachment with our clients, which has helped us to develop and discover additional demands in beauty and health management service industry, enables us to provide services based on our clients’ demands, and further helps us retain clients and increase client spending:

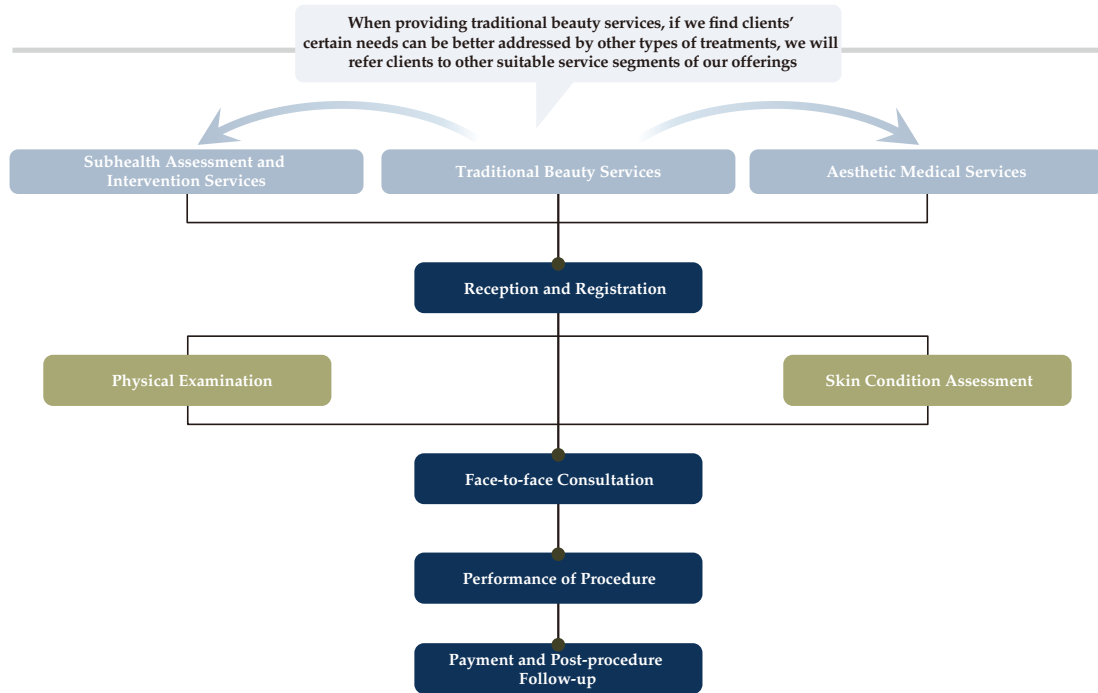


Our service offerings also enable us to cater to our clients’ evolving demands along their lifecycle:



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The following chart provides an overview of the typical process of our beauty and health management services:



Traditional Beauty Services

Our traditional beauty services primarily include facial and body care service procedures intended to improve skin condition and overall physical well-being of our clients, and are non-medical and non-invasive in nature. We first gain client trust from traditional beauty services, and then extend to more sophisticated services such as aesthetic medical services and subhealth assessment and intervention services. The majority of our clients of aesthetic medical services and subhealth assessment and intervention services are initially attracted by our traditional beauty services. During the Track Record Period, we provided traditional beauty services through our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores. The following images show our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores:



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Service Process

A new client may schedule an appointment with us through mini program or directly at our local store. When the new client visits our stores, our receptionist will introduce her or him to a client manager, who will ask the client to fill out a new client consultation form and exam the client’s skin conditions and recommend appropriate service procedures. When such client becomes our member and schedules an appointment with us, we will prepare the client’s records in advance for our client manager to assess the results of service procedures already performed on the client and recommend appropriate service procedures going forward.

Our client receives her or his desired service procedure performed by a trained therapist in a standard service room, who will closely monitor the client’s conditions and pay attention to her or his needs. Following the service procedure, our client manager will discuss the assessment results and explore potential options with the client and also explain the service fees charged and assist in booking next appointment.

As of the Latest Practicable Date, we offered 31 categories of traditional beauty service procedures covering more than 130 SKUs. The following table sets forth our key traditional beauty service procedures during the Track Record Period:

<u>Service procedure</u>	<u>Description</u>	<u>Price range per service procedure as of Latest Practicable Date⁽¹⁾⁽²⁾</u>
		<i>(RMB)</i>
Body maintenance (身體保健)	Performing body procedures to facilitate metabolism and detoxing, restore energy, and improve body conditions.	190-760
Body shaping (纖體塑形)	Shaping body through heat, massage and non-invasive shaping devices.	240-1,900
SPA and related care (美體水療)	Easing pain and tension through a variety of services such as baths, body wraps, body exfoliation adjustments and massage.	140-390
Female-focused care (女性養護)	Providing additional care to female clients’ unique needs.	190-840

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Service procedure	Description	Price range per service procedure as of Latest Practicable Date ⁽¹⁾⁽²⁾
		<i>(RMB)</i>
Skin texture improvement (膚質管理)	Using high-quality skin care products, combining with leading non-invasive skin care techniques, to provide comprehensive skin care and achieve skin oil to water balance, such as moisturizing, nutrition, deep cleansing and anti-allergic repair.	190-840
Skin tone improvement (膚色調理)	Using various anti-oxidant products to improve skin tone, including sallow or dull skin, and achieve skin lighting.	490-990
Rejuvenation skin care (膚齡護理)	Using advanced equipment together with skin nutrition to repair skin collagen tissue and keep skin plump and firm and to soften the appearance of fine lines, wrinkles and sagging skin.	490-1,990
Local treatment (局部護理)	Providing professional eye- or neck-related care.	170-950

Notes:

- (1) The price range has taken into consideration various levels of discounts we offer to clients.
- (2) Under each category of traditional beauty service procedures, we offer a variety of service procedures with different nature, level of complexity and body and skin care products used (if applicable), resulting in the relatively wide price range within the same category of service procedures.

In addition to our traditional beauty service procedures, our clients may enjoy other services such as manicures and eyebrow tattooing in our traditional beauty service stores, which are performed by third-party service providers, as part of our efforts to supplement our service offerings and better serve our clients' needs. When a client raises such request, we would coordinate and schedule an appointment for the client. During the appointment, the client will receive the requested services in our traditional beauty service stores, which will be performed by personnel from the third-party service provider. We would generally enter cooperation agreement of one year with our third-party service providers, and we would stipulate that the requested services should be performed in our traditional beauty service stores. We would further require that third-party service providers should bear all costs associated with performing such services including purchase of raw materials and consumables and hiring relevant personnel. Pursuant to our agreements, the third-party service providers should properly inspect their purchased raw materials and consumables and ensure that they are from legitimate sources, and the third-party services providers should take the responsibilities to hire properly trained personnel and handle any disputes with such personnel and ensure that the personnel performing services in our stores follow relevant rules of our

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Group. The agreement further provides that the third-party service providers should be responsible for any disputes or complaints arising from services or products provided by such third-party service providers. We reserve the right to terminate the agreement with a third-party service provider if we receive multiple complaints against such third-party service provider in two consecutive months. Our PRC Legal Advisers are of the view that such agreements with our third-party service providers are valid and binding and third-party service providers are fully responsible for customer complaints and disputes for their services or products provided by them. As advised by our PRC Legal Advisers, the aforementioned third-party services are regulated under the *Regulations on Health Management in Public Venues* (公共場所衛生管理條例), which requires that public venues such as hotels, restaurants, barber shops and beauty shops to apply to the administrative department of public health for a hygiene permit. Since such services are provided in our stores, such hygiene permit should be obtained by us and as advised by our PRC Legal Advisers we had properly obtained such hygiene permit as of the Latest Practicable Date. We will directly charge the client for the services and the third-party service providers are prohibited from directly collecting fees from the client. We are entitled to approximately 30% of revenue derived from the services provided by third-party providers and would generally settle the balances between us and a third-party provider on a monthly basis. During the Track Record Period, the revenue from services provided by third-party service providers contributed to 1.5%, 1.7%, 1.7% and 1.4% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. The following table illustrates the key operating data of our traditional beauty services by our direct stores. Client visits below and elsewhere in the prospectus include visits by our members as well as new clients who have not yet registered as our members.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Number of client visits	771,078	790,376	993,235	431,762
Number of active members served	69,895	67,178	75,548	59,632
Average spending per active member* (RMB)	10,596	10,866	11,843	6,008
Number of visits per active member	9.1	9.6	10.2	5.5

Note:

* Refers to an utilized amount for the year/period.

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During the Track Record Period, we generated revenue from the sales of traditional beauty products such as skincare products. In 2019, 2020, 2021 and the six months ended June 30, 2022, our total revenue generated from product sales (including product sales to consumers in direct stores, and to franchised stores and others) accounted for 10.8%, 10.8%, 10.4% and 9.9%, respectively, of our total revenue for the same periods. In particular, (i) our revenue generated from product sales to consumers in direct stores accounted for 3.0%, 5.1%, 4.7% and 4.1% of our total revenue; (ii) our revenue generated from product sales to franchised stores accounted for 5.6%, 4.4%, 4.7% and 4.5% of our total revenue and (iii) our revenue generated from product sales to others (primarily include (1) product sales to or through Shanghai Luanmei, whose primary business is the operation of online stores on Tmall (天貓商城) as well as (2) product sales in beauty exhibitions) accounted for 2.2%, 1.3%, 1.0% and 1.3% of our total revenue, in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

During the Track Record Period, our product sales primarily consisted of branded products and private label skincare products, both of which were sourced from Independent Third Party suppliers, who are engaged in the import, distribution, packaging and sales of skincare and beauty products. The substantial majority of our product sales were of branded products, such as cream, lotion and serum branded under Babor, Deynique and Lailique. In addition, and to a much lesser extent, we sold private label skincare products, such as lotion, serum and mask branded under L'Admirer (肌喻), Dan Mo'er (丹摩兒), Palaispa (貝黎詩) and Cellaphile. Regarding the manufacture of our private label skincare products, as confirmed by our Directors, we substantively rely on Independent Third Party throughout the whole process, ranging from formulation, the procurement of raw materials, manufacturing to product design and packaging. We would, eventually, be provided with finished and packaged products that are labelled to be sold under our self-owned brands, including among others, L'Admirer (肌喻), Dan Mo'er (丹摩兒), Palaispa (貝黎詩) and Cellaphile. Through the sales of private label skincare products, we generated revenue of RMB3.2 million, RMB3.7 million, RMB3.4 million and RMB1.0 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, which accounted for 0.2%, 0.2%, 0.2% and 0.1%, respectively, of our total revenue for the same periods. In addition, in March 2022, we acquired Shanghai Luanmei whose primary business is the operation of online stores on Tmall (天貓商城). For more details, see "History, Reorganization and Corporate Structure — Acquisition of Beijing Palaispa and Shanghai Luanmei" in this prospectus. We plan to sell daily facial and body care products, such as skincare products and cosmetics, through such online platform to further strengthen our traditional beauty services.

Aesthetic Medical Services

Leveraging advanced equipment and experienced service personnel, we also provide premium aesthetic medical services. Our aesthetic medical service procedures are primarily non-surgical procedures, including energy-based services and injection services. During the Track Record Period, our revenue from non-surgical aesthetic medical services contributed 30.3%, 32.1%, 33.0% and 33.7% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. To a limited extent, we also provide surgical aesthetic medical services such as double eyelid construction, lipofilling and liposuction procedures. As of the Latest Practicable Date, we offered 10 categories of aesthetic medical services covering more than 300 SKUs. The aesthetic medical services are performed by registered physicians, who have obtained requisite licenses and training to provide the services, and are provided through our CellCare (秀可兒) stores. The following images show our CellCare (秀可兒) stores:



Service Process

Through our traditional beauty services, if a client has needs for additional skin or body care services, which we believe can be better satisfied through our aesthetic medical services, we will introduce such client to a CellCare (秀可兒) store. When the client visits our stores, she or he will have a face-to-face consultation with a qualified physician and the qualified physician will determine the appropriate plans and procedures.

After the client's consultation with the physician, our client service personnel will assist in arranging appointment for the relevant procedure. Our registered nurse will assist in pre-procedure preparation and our qualified and experienced physician will perform the intended procedure. Following the procedure, we will provide post-procedure care tips to the client and examine her or his skin conditions to ensure that she or he is suitable to leave our stores.

BUSINESS

The following table illustrates the key operating data of our aesthetic medical services:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Number of client visits	43,295	45,051	52,962
Number of active members served	12,683	14,291	16,896	12,476
Average spending per active member* (RMB)	36,631	39,471	39,833	22,087
Number of visits per active member	3.4	3.2	3.1	1.9

Note:

* Refers to an utilized amount for the year/period.

Non-Surgical Aesthetic Medical Services – Energy-Based Services

Our energy-based services are intended to improve appearance and skin conditions such as facial and body contouring, treatment of moles and warts, melasma, rosacea, sebaceous hyperplasia, seborrheic keratosis and skin allergy. Leveraging advanced equipment and experienced service personnel, we offer a wide range of premium energy-based services for various purposes such as skin rejuvenation, pigment improvement, skin tightening, collagen stimulation, lifting, skin exfoliation, hair removal, and localized fat cell disruption. Our energy-based services involve the use of energy-based equipment such as laser, radiofrequency, intense pulsed light and cryolipolysis. All of our energy-based devices are approved by the NMPA for their safety and effectiveness.

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The following table sets forth our key energy-based service procedures during the Track Record Period:

<u>Service procedure</u>	<u>Technology/ Device type</u>	<u>Description</u>	<u>Price range per service procedure as of the Latest Practicable Date⁽¹⁾⁽²⁾</u>
			<i>(RMB)</i>
Thermage	Radiofrequency	Using a probe to transmit high-energy radiofrequency to deep layer of dermis to denature and constrict the collagen by heat energy, so as to activate the self-repairing process of human body and stimulate the regeneration of collagen with an aim to improve skin texture, shrink pores and increase skin elasticity.	6,800-66,000
Photorejuvenation	Optimal pulse technology	Using specialized equipment, M22-AOPT, to repair facial skin.	890-9,540
Fotona4D [®]	Laser	Using specificized equipment, Fotona4D [®] PRO, in combination with botulinum toxin type A and other materials, to perform non-surgical facelift procedure and create natural-looking appearance.	4,600-18,800
Picosecond laser	Laser	Using laser of picosecond duration with high energy which can accurately blast pigment tissue or tattoo to reduce pigmentation, rejuvenate skin, minimize pores and brighten skin tone.	800-12,800
CoolSculpting	Cryolipolysis	Using controlled cooling to target and eliminate fat cells underneath the skin.	1,990-29,800

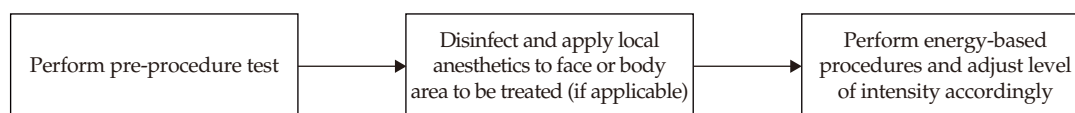
Notes:

- (1) The price range has taken into consideration various levels of discounts we offer to clients.
- (2) The price range of the same service procedure is a result of, among other things, complexity of the procedure and time needed to complete the procedure, treatment plans and treatment area, which in turn depends on the specific client's conditions and needs.

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We are also actively introducing new energy-based service procedures, such as ultrasound cannon (超聲炮), using NMPA-approved ultrasound equipment to generate heat to stimulate the regeneration and reorganization of collagen to prevent loose, sagging and wrinkled skin due to aging.

Depending on the type of device, local anesthetics through use of anesthetic cream may be applied and performed by a registered nurse or physician. In accordance with the relevant PRC laws and regulations, all our energy-based services are performed by qualified physicians with at least three years of relevant experience. Our energy-based service procedures typically take approximately 80 to 120 minutes. Depending on the type of the procedures and the client's reaction to the relevant procedure, most of our energy-based services require repeated sessions in order to achieve or maintain the desired optimal results. The performance of procedures is illustrated as follows:



Non-Surgical Aesthetic Medical Services – Injection Services

Our injection services help our clients improve their appearance with minimum penetration into body tissue. According to Frost & Sullivan, injection services are gaining popularity in China due to their relatively low level of risk, and relatively quick and more visible effects.

The following table sets forth our key injection service procedures during the Track Record Period:

<u>Service procedure</u>	<u>Description</u>	<u>Intended effects</u>	<u>Price range per service procedure as of the Latest Practicable Date⁽¹⁾⁽²⁾</u>
			<i>(RMB)</i>
Injection of botulinum toxin type A	Injecting the medication botulinum toxin type A into the skin and/or muscle of the face or body	Reducing wrinkles in the face or body, facial or body contouring.	800-22,800
Injection of fillers	Injecting hyaluronic acid into the skin of the face or body and/or periosteum	Filling in wrinkles in the face or body, restoring natural volume that is lost and lifting sagging skin.	3,000-19,800

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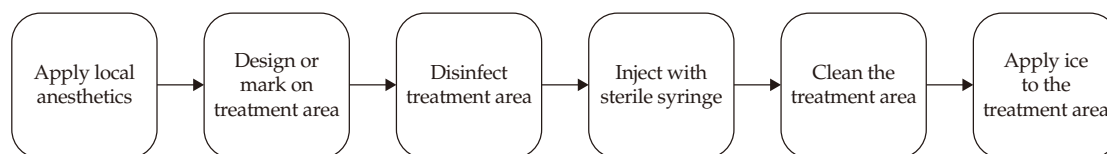
<u>Service procedure</u>	<u>Description</u>	<u>Intended effects</u>	Price range per service procedure as of the Latest Practicable Date⁽¹⁾⁽²⁾ <i>(RMB)</i>
Injection of PLLA (童顏針)	Injecting NMPA-approved PLLA, 艾維嵐-Löviselle, into the skin of the face	Activating the regeneration of collagen	6,600-19,800
Xuehua shot (雪花針)	Injecting sodium hyaluronate composite solution, Hearty (嗨體), to papillary layer of skin	Providing necessary compounds to repair skin cells and to stay hydrated	800-3,800
Happy eye (幸福眼)	Using a combination of injection of Hearty and botulinum toxin type A and eyebrow threading to perform a non-surgical procedure around eye	Reducing the impact of aging	13,800-19,800

Notes:

- (1) The price range has taken into consideration various levels of discounts we offer to clients.
- (2) The price of the same service procedure is a result of, among other things, complexity of the procedure and time needed to complete the procedure, the brands of injection material used, treatment plans and treatment area, which in turn depends on the specific client's conditions and needs.

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In accordance with the relevant PRC laws and regulations, all of our injection services are performed by qualified physicians. Our injection service procedures typically take within 30 to 60 minutes. Recovery time varies depending upon the type of procedure and the client's physical conditions, which is generally between three days to weeks. The aesthetic effect of injection services only lasts for a limited period of time, which varies depending on the injection materials, skills of physicians and client's physical conditions. We will inform our clients of the expected duration of effectiveness of our injection services, and many of them will return for repeated procedures subsequently when the effects of their respective previous procedures require upkeeping. The performance of procedures is illustrated as follows:



Surgical Aesthetic Medical Services

In addition to non-surgical aesthetic medical services, our CellCare (秀可兒) stores provided a limited amount of surgical aesthetic medical services, such as double eyelid construction, lipofilling and liposuction procedures, which were performed by registered physicians with requisite licenses and training. These surgical aesthetic medical procedures are generally low-risk with low operational complexity. Our surgical aesthetic medical services are regulated by relevant authorities and we confirm that, in accordance with applicable laws and regulations, we have obtained all approvals to provide our surgical aesthetic medical services during the Track Record Period. For details, see “Industry Overview — Overview of Aesthetic Medical Services — Surgical Aesthetic Medical Services” and “Regulatory Overview — Regulations Relating to Medical Services — Regulations on the Aesthetic Medical Services” in this prospectus. During the Track Record Period, revenue from such surgical aesthetic medical services accounted for 2.8%, 5.5%, 4.8% and 3.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

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The following table sets forth our key surgical medical aesthetic service procedures during the Track Record Period:

<u>Service procedure</u>	<u>Description</u>	<u>Price range per service procedure as of the Latest Practicable Date⁽¹⁾⁽²⁾</u> (RMB)
Integrated eye surgery	Improving the shape or appearance of the eyes or eyelids, such as double eyelid construction, eye bag removal, ptosis correction and eyebrow lift	6,800-69,800
Lipofilling	Extracting fat from one area of the body and then inserting this fat into a different area where volume, mass or reshaping is desired, in order to provide youthful shapes of the face and other parts of the body. It also can be described as "fat transfer", "lipomodelling" or "fat grafting"	4,900-396,000
Liposuction ⁽³⁾	Removing excess deposits of unwanted body fat to sculpt body shape, in the same procedure, also tightening the skin by utilizing energy-based techniques	12,000-260,000

Notes:

- (1) The price range has taken into consideration various levels of discounts we offer to clients.
- (2) The price range of the same service procedure is a result of, among other things, complexity of the procedure and time needed to complete the procedure, treatment plans and treatment area, which in turn depends on the specific client's conditions and needs.
- (3) In one-time procedure, we strictly implement that the basic upper limit for fat removal is approximately 1,000 ml of volume.

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As a result of the surgical nature of the surgical medical aesthetic service procedures, the aesthetic effect of such procedures performed may last for a longer period of time. To ensure the consistency of quality and safety in our surgical medical aesthetic service procedures, we developed a series of standardized processes as follows:



We provide such surgical aesthetic medical services with the purpose of providing clients with service offerings so that the clients could have more options in choosing services at our CellCare (秀可兒) stores. However, such ancillary services are largely depending on the clients' evolving needs and we currently have no intention to make such surgical aesthetic medical service a business focus or main revenue driver. In particular, given the potential growth of non-surgical aesthetic medical service market, we still plan to further strengthen our pure non-surgical aesthetic medical services going forward.

Subhealth Assessment and Intervention Services

Our subhealth assessment and intervention services provide detection, assessment and intervention of subhealth conditions. We started to provide subhealth assessment and intervention services in 2018 in response to the needs of our traditional beauty service clients. During the Track Record Period, we provided subhealth assessment and intervention services through five Neology (研源) healthcare centers. The images below show our Neology (研源) healthcare centers:



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Leveraging advanced technologies and medical devices, our subhealth assessment and intervention services are intended for subhealth assessment and intervention procedures, using specialized technologies and various tests to assess health conditions and provide interventional care.

As of the Latest Practicable Date, we offered six categories of subhealth assessment and intervention service procedures covering nearly 400 SKUs. The following table sets forth our key subhealth assessment and intervention service procedures performed during the Track Record Period:

<u>Service procedure</u>	<u>Description</u>	Price range per service procedure as of Latest Practicable Date⁽¹⁾⁽²⁾ (RMB)
Functional medical detection (功能醫學檢測)	Providing various functional medical detections, including testing of metabolic system, endocrine system, immune system, gastrointestinal tract and environment toxin exposure, to provide assessment of body health.	1,000-38,000 ⁽³⁾
Subhealth assessment (亞健康評估)	Providing comprehensive subhealth detection through various tests, such as metabolic heat detection via thermal infrared imaging, heart rate variability monitoring, fluorescence testing and atherosclerosis testing.	1,100-12,000 ⁽³⁾
Intervention	Providing interventional care, including offering Von Ardenne immunotherapy and hyperthermia therapy (德國阿登納免疫熱療) to facilitate metabolism and ease nerve and muscle pain, and Changnuan Jujiao ultrasound uterine care (暢暖聚焦超聲子宮特護) to provide uterine care to our female clients using low-intensity focused ultrasound technology.	1,000-9,600 ⁽³⁾

Notes:

- (1) The price range has taken into consideration various levels of discounts we offer to clients.
- (2) Not including service procedures previously provided by Hainan Qiyan, which was disposed of by us in 2020.
- (3) Under each category of subhealth assessment and intervention service procedures, we offer a variety of service procedures with different nature, level of complexity and if applicable, medical devices adopted, resulting in the relatively wide price range within the same category of service procedures.

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We will also actively keep track on the new technologies within the subhealth assessment and intervention service industry. According to Frost & Sullivan, the subhealth assessment and intervention service industry is recently introducing advanced technologies such as hyperthermia therapy and hydrotherapy, and chelation therapy. In response to the industry trend, we have introduced Von Ardenne immunotherapy and hyperthermia therapy (德國阿登納免疫熱療), which is a NMPA-approved Class II medical device. It uses water-filtered infrared radiation to release energy in the deeper skin layers to increase core body temperature and improve overall blood circulation. During the therapy, the client, covered with a thermal foil, lies on a couch equipped with a special mesh that allows perspiration to drip off easily. During the entire duration of the therapy, the client is constantly monitored and supervised by our registered physicians with requisite licenses. Such procedure is suitable for people with immune deficiency or acute and chronic pain. It works as an adjunct therapy to alleviate pain and improve people's physical function. To perform Von Ardenne immunotherapy and hyperthermia therapy (德國阿登納免疫熱療) for our clients, we have obtained all the relevant permits in this regard. We will continue monitoring the trend of the industry and introduce advanced technologies to better serve our clients.

Service Process

A new client of our subhealth assessment and intervention services is typically attracted from our traditional beauty services. The client will have a consultation with our health consultant, who will evaluate if the client has needs for our subhealth detection, intervention or female-focused care procedures. For example, if a client shows interest in and has needs for a subhealth detection procedure, our client service personnel will assist the client in scheduling an appointment and our registered nurse will assist the client through the procedure. After the procedure, the client will have her or his report reviewed by a qualified physician, who will recommend appropriate intervention procedure to the client.

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The following table illustrates the key operating data of our subhealth assessment and intervention services. We disposed of Hainan Qiyan in December 2020. For more details, see “History, Reorganization and Corporate Structure — Disposal of Hainan Qiyan” in this prospectus.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Number of client visits	5,009	10,049	8,755
Number of active members served	1,895	3,305	2,675	1,723
Average spending per active member* (RMB)	33,959	27,567	16,364	11,930
Number of visits per active member	2.6	3.0	3.3	2.7

Note:

* Refers to an utilized amount for the year/period.

OUR STORE OPERATION MODEL

Our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores are operated under both direct store model and franchised store model. Our CellCare (秀可兒) stores and Neology (研源) healthcare centers are operated exclusively under the direct store model. During the Track Record Period, our direct stores generated a very significant portion of our total revenue, contributing to 91.7%, 93.9%, 94.1% and 93.9% of the total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Direct Store Model

We own and operate direct stores ourselves. Overall, the direct store model allows us to achieve rapid expansion while maintaining the quality of our services. Through the direct store model, we promote the operation efficiency, safety and profitability of our stores, which in turn render our brands recognition and allow us to maintain sufficient control over the quality of services we deliver to our clients.

With high level of standardization within our store network, we are able to widely adopt the direct store model across our brands. As of June 30, 2022, we owned and operated 177 direct stores. We strategically locate a substantial majority of our direct stores in shopping malls, as we believe such locations enable us to raise our brand awareness and attract client traffic in a cost-efficient manner. We seek to expand our sales network by establishing additional direct stores, taking account of macroeconomics, market conditions and our regional focus. The following table sets forth certain key performance indicators of our direct stores during the Track Record Period. Specifically

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with respect to certain changes, some negative trend in 2020 was caused by the COVID-19 pandemic, and the decrease in revenue from Neology (研源) in 2021 was the result of less clients served:

	As of/for the year ended December 31,			As of/ for the six months ended June 30,
	2019	2020	2021	2022
Number of direct stores				
BeautyFarm (美麗田園) stores	119 ⁽¹⁾	125	138	139
Palaispa (貝黎詩) stores	16	15	16	15
CellCare (秀可兒) stores	14	17	18	18
Neology (研源) healthcare centers	5	4	5	5
Total	154	161	177	177
Revenue of direct stores (RMB'000)				
BeautyFarm (美麗田園) stores	675,979	696,252	855,967	351,977
Palaispa (貝黎詩) stores	83,848	60,756	85,391	31,067
CellCare (秀可兒) stores	464,586	564,076	673,025	275,556
Neology (研源) healthcare centers	64,353	91,110	43,772	20,555
Total	1,288,765	1,412,194	1,658,154	679,155
Total client visits				
BeautyFarm (美麗田園) stores	696,382	710,323	900,628	394,196
Palaispa (貝黎詩) stores	74,696	80,053	92,607	37,566
CellCare (秀可兒) stores	43,295	45,051	52,962	23,861
Neology (研源) healthcare centers	5,009	10,049	8,755	4,618
Total	819,382	845,476	1,054,952	460,241
Utilization rate (%)				
BeautyFarm (美麗田園) stores ⁽²⁾	54.0	55.5	62.3	58.8
Palaispa (貝黎詩) stores ⁽²⁾	48.0	52.3	54.2	46.6
CellCare (秀可兒) stores ⁽³⁾	50.3	51.5	51.8	42.3
Neology (研源) healthcare centers ⁽³⁾⁽⁴⁾	9.7	14.8	15.3	13.9

Notes:

- (1) Including three direct stores operated under XURFACE, a sub-brand under BeautyFarm (美麗田園). We created XURFACE in 2018 as our attempt to target younger clients for traditional beauty services, (including the use of skincare equipment in combination with skincare products to keep skin

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hydrated, lighten the skin, or soften the appearance of fine lines, wrinkles and sagging skin), and ceased the operations of the three XURFACE stores in early 2020 as we wanted to focus on our main brands and we believe online channels provided an alternative to attract younger clients cost-efficiently. During the Track Record Period and up to the Latest Practicable Date, we did not receive any administrative fines or penalties that have material adverse impact on our business with respect to XURFACE's operation.

- (2) Represents the actual number of visits per bed during the given period as a percentage of the maximum visit capacity per bed of our BeautyFarm (美麗田園) stores or Palaispa (貝黎詩) stores in such period. The maximum visit capacity per bed represents the maximum number of client visits we can accommodate theoretically with each bed during a given period. To calculate the maximum visit capacity per bed, we use (i) three hours per client visit of a BeautyFarm (美麗田園) store or a Palaispa (貝黎詩) store taking into account the pre-procedure preparation and post-procedure sanitization, (ii) the maximum number of servicing hours per bed (being approximately nine hours per day) and (iii) assume that the number of opening days of a relevant store is 361 for 2019 and 2021 and 332 for 2020 taking into consideration the lock-down measures imposed by local governments as a result of the COVID-19 pandemic. During the six months ended June 30, 2022, we excluded the number of days that certain traditional beauty service stores were not opened due to the impact of regional outbreak of the COVID-19, such as 60 days for traditional beauty service stores in Shanghai. In addition, we further assume that the number of opening days for a store which was closed or commenced operation during such period would be the number of days such store was in operation during the relevant period. Accordingly, each bed can theoretically accommodate up to three client visits on each day. Our assumptions applied here, according to Frost & Sullivan, are consistent with industry practice.
- (3) Represents the actual number of client service hours per service room during the given period as a percentage of the maximum service capacity per service room of a CellCare (秀可兒) store or a Neology (研源) healthcare center in such period. The maximum service capacity per service room is the product of (i) eight servicing hours per service room per clinic day and (ii) the number of clinic days during such period. A clinic day refers to a day when at least one registered physician is present at the relevant store providing aesthetic medical services or subhealth assessment and intervention services in accordance with applicable laws and regulations. The number of clinic days of a store varies depending on the location of the store and market demand. As such, it is impractical to evaluate the impact of the COVID-19 on the number of days a CellCare (秀可兒) store or Neology (研源) healthcare center could be opened for business. For example, we assume our stores in Beijing, Shanghai and Shenzhen have approximately 360 clinic days for a year and 180 clinic days for a six-month period and our stores in Changsha and WuXi have approximately 130 clinic days and 70 clinic days for a year and approximately 65 clinic days and 35 clinic days for a six-month period, respectively. The actual number of client service hours would be the product of (i) the estimated service hours spent for each specific type of procedures, including pre-procedure preparation and post-procedure sanitization, and (ii) the number of each type of procedures performed in the relevant store during the period. Our assumptions applied here, according to Frost & Sullivan, are consistent with industry practice.
- (4) The subhealth assessment and intervention service market is an emerging market at a relatively early stage and we only introduced such services in 2018, resulting in the relatively low utilization rate. However, it has market growth potential in the years to come and the utilization rate of our subhealth assessment and intervention service network increased through the Track Record Period.

During the Track Record Period, the number of our BeautyFarm (美麗田園) stores increased from 119 as of December 31, 2019 to 138 as of December 31, 2021 and remained stable at 139 as of June 30, 2022. Our BeautyFarm (美麗田園) stores recorded 696,382 client visits in 2019, which increased to 900,628 in 2021. In addition, in the six months ended June 30, 2022, our BeautyFarm (美麗田園) stores recorded 394,196 client visits. The revenue generated from our BeautyFarm (美麗田園) stores increased from RMB676.0 million in 2019 to RMB856.0 million in 2021, and amounted to RMB352.0 million in the six months ended June 30, 2022. The number of our Palaispa (貝黎詩) stores remained

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relatively stable during the Track Record Period, and they recorded 74,696 client visits in 2019, which increased to 92,607 in 2021. In addition, in the six months ended June 30, 2022, our Palaispa (貝黎詩) stores recorded 37,566 client visits. In the meantime, revenue generated from our Palaispa (貝黎詩) stores increased from RMB83.8 million in 2019 to RMB85.4 million in 2021, amid a decrease in 2020 largely due to the adverse impact of the COVID-19, and amounted to RMB31.1 million in the six months ended June 30, 2022. Our CellCare (秀可兒) store network expanded from 14 as of December 31, 2019 to 18 as of December 31, 2021, and remained stable at 18 as of June 30, 2022. Our CellCare (秀可兒) stores recorded 43,295 client visits in 2019, which increased to 52,962 in 2021. In addition, in the six months ended June 30, 2022, our CellCare (秀可兒) stores recorded 23,861 client visits. The number of our Neology (研源) healthcare centers remained relatively stable during the Track Record Period and they recorded 5,009 client visits in 2019, which increased to 10,049 in 2020 due to the expansion of our Neology (研源) healthcare center network in the second half of 2019, and slightly decreased to 8,755 in 2021. In the six months ended June 30, 2022, our Neology (研源) healthcare centers had 4,618 client visits. Revenue from our Neology (研源) healthcare centers also had a similar pattern that it increased from RMB64.4 million in 2019 to RMB91.1 million in 2020 and decreased to RMB43.8 million in 2021. In the six months ended June 30, 2022, our Neology (研源) healthcare center had a revenue of RMB20.6 million.

Going forward, among other things, we believe that the market growth of traditional beauty services, aesthetic medical services and subhealth assessment and intervention services, according to Frost & Sullivan, will drive the growth of our business. For details of the forecasted growth of each relevant service market, please see “Industry Overview” in this prospectus. Expanding our store network could also help us capitalize on the forecasted market growth and the fragmented but increasingly consolidated market of traditional beauty services and aesthetic medical services and further drive our growth in the future. In addition, our expanded traditional beauty service network would cultivate a larger and loyal client base consisting of clients with high spending power, who are confident in the quality of our services and our brands and are more likely to purchase our aesthetic medical services and subhealth assessment and intervention services. For details, please see “— Our Strategies — Strategically Expand our Service Network and Marketing Channels to Expand our Client Base and Increase Brand Awareness” in this section and “Future Plans and Use of Proceeds” in this prospectus. We will also actively introduce advanced technologies and products and further expand our service offerings, such as body negative pressure pump massage equipment and ultrasound cannon (超聲炮), so as to improve client experiences and fulfill clients’ evolving needs. For details, please see “— Our Strategies — Improve Client Loyalty and Fulfill Clients’ Evolving Needs by Introducing New Technologies, Equipment and Products, and Expanding our Service Offerings” in this section.

Franchised Store Model

We have introduced franchised store model for traditional beauty services for over 15 years as our first attempt to combine the benefits of franchised store model with our existing strengths developed through direct store model. The franchised store model has greatly increased our client reach, which is consistent with industry practice. Although franchised stores are operated by our franchisees rather than by ourselves, to ensure customers can receive consistent service across all stores in our network, we require all franchised stores to use the same operational systems and hold them to the same standards as our direct stores.

The total number of active members served by our direct and franchised stores increased from 86,756 as of December 31, 2019 to 99,497 as of December 31, 2021 at a CAGR of 7.1%. During the six months ended June 30, 2022, our direct stores and franchised stores served a total of 81,130 active members. The revenue contribution from our franchised stores mainly consisted of their purchase of our products and equipment, franchise fees, training fees, POS system fees, and operating and administrative fees. During the Track Record Period, the revenue contributions from our franchised stores amounted to RMB84.5 million, RMB70.9 million, RMB87.5 million and RMB35.8 million, respectively, representing 6.0%, 4.7%, 4.9% and 4.9% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Additionally, our franchised stores have also created synergies through introducing their clients to our aesthetic medical services. We enter into franchise agreements with franchisees and grant them licenses to sell our products, provide services under our names and use our system and trademarks at a given location. We believe the franchise store model brings in benefits of faster expansion, customer acquisition, regional penetration and market share gains as well as effective utilization of franchisees' entrepreneurial spirit, local expertise and business network.

Meanwhile, to ensure sufficient control over the quality of our services and to maintain the reputation of our brands, we introduced the following measures:

- *Selection of franchisees.* We conduct background search and interview on our franchisees and carefully select our franchisees based on a number of criteria, including, among other things, their (i) financial conditions; (ii) commitment to our corporate philosophy and brand concept; (iii) personal involvement in the operation of franchised store; (iv) relevant experience; and (v) local knowledge and resources.
- *Training and integration.* The employees working at our franchised stores are required to receive technical training from us and meet our requirements through the same training we provide for our direct stores. We reserve the right to retrain such unqualified employee.
- *Review of operating performance.* We set certain franchisees' sales target indicators or reference factors for incentive measures such as average monthly product order and turnover, and review such operating data of our franchised stores through our platform system regularly.

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- *Platform system.* The franchisees should use our unified membership platform system and maintain the unified appearance and philosophy of the brand, which could, for example, allow us to monitor real-time business performance, inventory level and clients' feedback of our franchised stores.
- *Operation of the franchised stores.* The franchisees should follow our operational, service safety and quality control standards. We also provide guide prices which are unified with direct stores.
- *Procurement.* The franchisees are required to purchase all products, equipment and consumables from us or suppliers designated by us.
- *Promotional and advertising methods.* The franchisees should use the promotional and advertising strategies provided or otherwise approved by us.
- *Cross-selling of services.* We set the number of cross-selling referrals as certain franchisees' sales target indicator. The franchisees should only cross-sell services under our brands; otherwise, it is deemed breach of contract.
- *Ongoing quality control and supervision.* We conduct regular site visits to our franchised stores and request periodic reports from our franchisees to ensure their operation meets our standards.
- *Exclusive operation model in one region.* To avoid market cannibalization, for our BeautyFarm (美麗田園) store network, we generally do not authorize franchised stores in cities we have direct stores, and we also generally do not open direct stores in cities we have franchised stores. For our Palaispa (貝黎詩) store network, we generally do not open a new store within a two-and-a-half-kilometer radius of an existing store to avoid cannibalization between direct stores and franchised stores. Per the franchise agreement, we have the right to authorize the location for a franchised BeautyFarm (美麗田園) store or franchised Palaispa (貝黎詩) store, and we will take into consideration the possibility of cannibalization between the new franchised store and our existing network when authorizing the location of a franchised store.
- *Compliance obligation.* The franchise agreements between the franchisees and us also set forth that the franchisees shall be responsible for obtaining all necessary licenses and certificates to the extent applicable. The franchise agreements generally include illegal business clause and/or damage clause which provide that it constitutes a breach of contract if franchisees start operation in the name of our franchise stores before obtaining required licenses and certificates. We shall not be held liable for any losses arising from the franchisees' non-compliance in this regard.

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If, in any event, we suffer any losses due to such non-compliance of franchisees, we are entitled to recover the damages from franchisees and terminate the franchise agreement unilaterally.

The following sets forth a summary of material terms of our franchise agreements:

- *Term and termination.* The franchise agreement generally has an initial term of three to five years, and is renewable by mutual consent. In the event the franchise agreement is not renewed at least 30 days prior to the end of the initial term, it will be automatically terminated upon expiration. In the event of a material breach of the agreement by the franchisee, including but not limited to (i) assigning rights under the franchise agreements to third parties without our prior written consent; (ii) establishing new entities or adjusting the business premises of any franchised store under our name, trademark and/or other business marks without our prior written consent; (iii) closing the franchised store without our prior written consent; (iv) failure to pay any franchise fees as agreed in the agreement; (v) failure to meet any sales targets as agreed in the agreement; (vi) misusing any of our intellectual properties; and (vii) using any products that are not designated by us without our prior written consent, we may terminate the franchise agreement at our discretion. During the Track Record Period, we did not experience any breach of franchise agreements that had a material adverse impact on our business operations.
- *Our rights and obligations.* We are entitled to: (i) require the franchisees to operate strictly under the requirements as described in the franchise agreement to maintain the unified image of the brand; (ii) supervise the business activities of the franchisees; and (iii) collect from the franchisees the franchise fees, training fees, POS system fees, operating and administrative fees and any reasonable fees as agreed in the agreement or generated during performance.
- *Obligations of franchisees.* The franchisees are not permitted to (i) sell and operate outside their respective designated regions; (ii) enter into transaction agreements directly with or receive funds from clients without using our system; (iii) use or make recommendations to clients of any products that are not designated by us, or (iv) assign rights and obligations under the franchise agreements to third parties.
- *Financial/revenue arrangement.* The franchisees shall maintain real-time networking status with us during business and record all sales operation activities into our POS system to ensure that such data truly reflects the actual situation. The franchisees shall uniformly use our platform system for billing, cashier and revenue statistics, and are not permitted to circumvent our platform system and software to collect any payment in any form and name. The franchisees shall report and sign the true performance and financial statement to us monthly. We require our franchised stores to use our POS system and conduct regular check on our franchised stores.

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- *Sales of products.* The franchisees shall only purchase products and equipment from, and sell such products to end clients at recommended prices which are unified with direct stores. We recognize revenue when the products or equipment are sold to our franchised stores. The franchisees shall submit an order plan in writing to us two months before the first-time stocking, and notify us of the quantity and specifications of the required products in writing 30 days in advance for each order (except for the first-time stocking) for us to deploy the products. The franchisees are required to pay us for the products at least ten days in advance of the delivery date. The franchisees are not permitted to (i) sell the products on any online platforms, (ii) sell the products to any clients for the purpose of re-sale, or (iii) grant any other third parties, including the franchisees' actual controller or affiliates, the right to distribute or re-sell the products. The franchisees shall bear the corresponding costs at their own expenses such as freight, insurance and storage fees, and assume all risks upon acceptance except for quality issues.
- *Franchise fees.* According to franchise agreements entered into with our franchisees during the Track Record Period, the fees we charged to them primarily include standard one-off franchise fees, approximately RMB100,000, for each franchised store for the entire term of a franchise agreement, which are renewable every three to five years subject to the satisfaction of requirements set by the Group. Such fees, having considered market standards and our relevant costs such as costs of staff in support of our franchised stores and our marketing expenses, are payable after signing the franchise agreement. We also charge our franchisees other fees, which represent relatively insignificant amounts of the total franchise fees, such as (i) standard training fees for each personnel of the franchised stores depending on the role of the personnel participating in the training, and the nature and the length of the training, which are generally payable prior to the training. In determining the fees, we have considered relevant costs such as cost of training personnel and training materials; (ii) generally, the same amount of fixed POS system fees, having considered relevant costs including costs of purchasing, developing and maintaining IT systems, for each franchised store payable annually, and (iii) operating and administrative fees (if applicable), which are either a fixed amount or a predetermined percentage of sales of the relevant franchised store that are payable annually, depending on the specific franchise agreement, largely based on marketing materials and operation support we provide.

As of June 30, 2022, to the Company's knowledge, all of our franchised stores were Independent Third Parties, among which, shareholders of 21 franchised stores are minority shareholders of seven of our subsidiaries. Our business with the above-mentioned 21 franchised stores have been conducted on normal commercial terms in our ordinary course of business, and we considered the revenue contribution of these 21 franchised stores to be insignificant.

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OUR NETWORK

We have grown our network significantly since we commenced operations in 1993. As of June 30, 2022, our extensive store network consisted of 177 direct stores and 175 franchised stores. The following table sets out the number of our stores in operation during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Direct stores				
At the beginning of the period	145	154	161	177
Opening of new stores	13	12	15	5
Acquisition of new stores	1	4	1	–
Closure of stores	5 ⁽¹⁾	9 ⁽¹⁾⁽²⁾	–	5 ⁽¹⁾
Net increase/(decrease) in the number of stores	9	7	16	–
At the end of the period	154	161	177	177
Franchised stores				
At the beginning of the period	101	126	152	160
Opening of new stores	37	33	23	18
Closure of stores	12 ⁽³⁾	7 ⁽³⁾	15 ⁽³⁾⁽⁴⁾	3
Net increase in the number of stores	25	26	8	15
At the end of the period	126	152	160	175

Notes:

- (1) Closure of existing stores in 2019 and 2020 was primarily because we relocated these stores to enhance the customer accessibility or consolidated these stores with other existing stores to better allocate our resources. During the six months ended June 30, 2022, we closed two stores so that the two sites can be primarily used for employee training. In addition, one store transformed into our franchised store. Furthermore, we closed another two stores and are actively seeking locations with better foot traffic.
- (2) Including closure of three XURFACE stores and disposal of Hainan Qiyian.
- (3) We periodically review the performance of our franchised stores and would consider closing a franchised store when such franchised store is unable to meet its performance target. In 2021, we reviewed our franchised store network and decided to close some underperforming franchised stores in certain regions, such as Hebei and Henan provinces, so that we could consolidate our resources and focus on growing our franchised store network in regions we saw great potential, such as Zhejiang, Jiangsu and Guangdong provinces, so as to optimize our store network and gain regional influence.

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Geographic Locations

As of June 30, 2022, our direct stores covered 22 cities in 19 provinces, autonomous regions and centrally-administered municipalities across mainland China. Following our inception, we firstly established our presence in tier-one cities with large populations and high *per capita* income. As of June 30, 2022, we had 84 direct stores in three tier-one cities, namely Beijing, Shanghai, and Shenzhen, and additional 73 direct stores in new tier-one cities, namely, Chengdu, Hangzhou, Chongqing, Xi'an, Suzhou, Wuhan, Nanjing, Tianjin, Zhengzhou, Changsha, Dongguan, Foshan, Ningbo, Qingdao, and Shenyang, representing 88.7% of our total stores. The following table sets forth the breakdown of the number of our direct stores in operation by city tiers during the Track Record Period:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
Tier-one cities ⁽¹⁾	80	80	87	84
New tier-one cities ⁽²⁾	59	61	70	73
Other cities ⁽³⁾	15	20	20	20
Total	154	161	177	177

Notes:

- (1) Including Beijing, Shanghai, Guangzhou and Shenzhen. Our direct stores in tier-one cities during the Track Record Period were located in Beijing, Shanghai and Shenzhen.
- (2) Including Chengdu, Hangzhou, Chongqing, Xi'an, Wuhan, Nanjing, Tianjin, Zhengzhou, Changsha, Ningbo, and Qingdao.
- (3) Including any other city that is not a tier-one city nor new tier-one city.

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)									
Tier-one cities	829,035	59.0	854,725	56.9	1,036,208	58.2	493,605	59.0	362,478	49.4
New tier-one cities	352,972	25.1	387,540	25.8	498,795	28.0	230,614	27.5	267,895	36.5
Other cities	106,758	7.7	169,929	11.3	140,310	7.9	66,622	8.0	58,947	8.0
Franchisee and others	115,987	8.2	91,102	6.0	105,427	5.9	45,989	5.5	44,998	6.1
Total	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0

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The following table sets forth details of utilization rate of our stores by cities for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	2019	2020	2021	2022
Utilization rate (%)				
Tier-one cities				
Traditional beauty service stores	54.8	55.8	62.7	53.2
CellCare stores	62.3	67.4	65.2 ⁽¹⁾	43.0 ⁽¹⁾
Neology healthcare centers	9.9	14.3	14.9	11.2
New tier-one cities				
Traditional beauty service stores	51.1	54.7	60.6	62.2
CellCare stores	43.1	38.5 ⁽¹⁾	39.1 ⁽¹⁾	39.9
Neology healthcare centers	9.1	16.1	16.2	20.4
Other cities				
Traditional beauty service stores	53.2	53.9	57.9	60.3
CellCare stores	25.3	34.1	41.4	48.0 ⁽¹⁾
Neology healthcare centers ⁽²⁾	N/A	N/A	N/A	N/A

Notes:

- (1) The decrease of utilization rate in tier-one cities in 2021 was largely due to the upgrade of our CellCare (秀可兒) stores in Shenzhen and Shanghai, which increased our service capacity. For stores located in new tier-one cities, our CellCare (秀可兒) store in Wuhan was particularly impacted by the outbreak of the COVID-19 pandemic in 2020, and we also expanded our CellCare (秀可兒) store network in new tier-one cities in 2020 and 2021 and upgraded our CellCare (秀可兒) stores in certain new tier-one cities, such as Nanjing, Chengdu and Chongqing, in 2020 or 2021, which also increased our service capacity. Due to the regional outbreak of the COVID-19 in Shanghai and Beijing, our CellCare (秀可兒) stores in the two cities experienced temporary closure, resulting in the decrease of utilization rate in tier-one cities for the six months ended June 30, 2022.
- (2) Our Neology (研源) healthcare centers are exclusively located in tier-one and new tier-one cities.

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Our extensive store network consists of additional 175 franchised stores as of June 30, 2022. We offer traditional beauty services under the brands of BeautyFarm (美麗田園) and Palaispa (貝黎詩), aesthetic medical services under CellCare (秀可兒) and subhealth assessment and intervention services under Neology (研源) and have formed a large coverage of middle-to-high end consumers in China. The following map sets forth the relevant information of our store network as of June 30, 2022:



Note: As of June 30, 2022

Store Performance

Initial Breakeven Period and Cash Investment Payback Period

The initial breakeven period represents the period from the opening of a store to the time when it records monthly net profit for the first time. The cash investment payback period for a store represents the time it takes for the accumulated operating cash flow attributable to us from the relevant store to recover the initial investment. Since its introduction as a shareholder of our Group in December 2013, CITIC PE has provided strong financial support and brought in good corporate governance measures to our Group, emphasizing operational standardization, digital information systems and financial management. As such, we are able to provide records of financial performances spanning beyond the Track Record Period, which we believe could better present our business prospects. The average initial breakeven period and the average cash investment payback period of our traditional beauty service stores established since 2014 till June 30,

2022 were approximately eleven months and approximately 21 months as of June 30, 2022, respectively. Twelve traditional beauty service stores established during the Track Record Period had not reached initial breakeven as of June 30, 2022.

Key Performance Indicators

Our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores can be categorized into three groups based on their respective opening date, namely newly-established stores (i.e., stores that have been established for less than three years), developing stores (i.e., stores that have been established for at least three years, but less than eight years) and matured stores (i.e., stores that have been established for at least eight years). We believe a newly-established store generally acquires clients at a faster rate during the first three years since its establishment, and after eight years, the store's client base tends to become stable and we generally need to relocate the store to a different site with a larger store size, or upgrade or renovate the store so as to accommodate the needs of our clients while maintaining a comfortable environment. We believe such categorization also reflects the business cycles of our traditional beauty service stores. For example, as compared with traditional beauty service store in other development stage, a matured traditional beauty service store generally has a larger store size and can accommodate more client visits and record a higher average spending per active member. As of June 30, 2022, we had 31 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in newly-established stage, 50 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in developing stage, and 73 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in matured stage.

We, however, do not manage our CellCare (秀可兒) stores and Neology (研源) healthcare centers by stages. Instead, we only proceed to open a CellCare (秀可兒) store or a Neology (研源) healthcare center in a city where we see clear and sufficient demand for aesthetic medical services and subhealth assessment and intervention services from our existing traditional beauty service clients in the same city. For example, our CellCare (秀可兒) stores normally do not experience long ramp-up period. The following table sets forth certain key performance indicators of our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores by development stage and our CellCare (秀可兒) stores Neology (研源) healthcare centers during the Track Record Period.

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	As of or for the year ended December 31,			As of or for the six months ended June 30,
	2019	2020	2021	2022
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Number of stores				
Traditional beauty service stores				
– Newly-established stores	34	33	35	31
– Developing stores	52	50	53	50
– Matured stores	49	57	66	73
CellCare stores	14	17	18	18
Neology healthcare centers	5	4	5	5
Total	<u>154</u>	<u>161</u>	<u>177</u>	<u>177</u>
Revenue (in thousands of RMB)				
Traditional beauty service stores				
– Newly-established stores	77,183	91,361	103,971	43,010
– Developing stores	257,515	225,054	263,482	89,350
– Matured stores	425,128	440,593	573,904	250,684
CellCare stores	464,586	564,076	673,025	275,556
Neology healthcare centers	64,353	91,110	43,772	20,555
Total	<u>1,288,765</u>	<u>1,412,194</u>	<u>1,658,154</u>	<u>679,155</u>
Total client visits				
Traditional beauty service stores				
– Newly-established stores	117,487	133,012	142,999	63,075
– Developing stores	291,887	268,565	328,434	123,925
– Matured stores	361,704	388,799	521,802	244,762
CellCare stores	43,295	45,051	52,962	23,861
Neology healthcare centers	5,009	10,049	8,755	4,618
Total	<u>819,382</u>	<u>845,476</u>	<u>1,054,952</u>	<u>460,241</u>
Average spending per active member (RMB)*				
Traditional beauty service stores				
– Newly-established stores	6,670	6,592	7,104	4,352
– Developing stores	8,144	7,897	8,124	4,352
– Matured stores	11,461	11,851	12,808	6,479
CellCare stores	36,631	39,471	39,833	22,087
Neology healthcare centers	33,959	27,567	16,364	11,930
Overall	<u>17,889</u>	<u>20,151</u>	<u>20,832</u>	<u>10,736</u>

Note:

* Refers to an utilized amount for the year/period.

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	As of or for the year ended December 31,			As of or for the six months ended June 30,
	2019	2020	2021	2022
	Utilization rate (%)			
Traditional beauty service stores				
– Newly-established stores	42.1	49.4	57.4	48.1
– Developing stores	52.1	54.0	59.1	59.0
– Matured stores	59.6	58.4	64.3	59.8
CellCare stores	50.3	51.5	51.8	42.3
Neology healthcare centers	9.7	14.8	15.3	13.9

During the Track Record Period, based on our management accounts, there were 52 stores, 67 stores, 58 stores and 100 stores that incurred operating losses in the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. During the six months ended June 30, 2022, our stores in cities such as Shanghai, Shenzhen, Nanjing and Changchun experienced temporary closure due to the regional outbreak of the COVID-19 in these cities, while continuing to incur rental expenses and pay employee compensations, and as such 30 traditional beauty service stores and one CellCare store recorded first-time operating losses in this period only. During the Track Record Period, most of the loss-making stores were traditional beauty service stores. Each of the loss-making traditional beauty service stores contributed to less than 1.0% of our total revenue during any year or period of the Track Record Period, indicating limited impact on the Company's overall operations. 12.1%, 13.5%, 11.4% and 23.9% of our total revenue in the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, were attributable to loss-making stores. Here below sets forth the details of those loss-making stores during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Number of loss-making stores				
– Traditional beauty service stores	49	63	54	97
– CellCare stores	–	–	–	1
– Neology healthcare centers	3	4	4	2
Revenue from loss-making stores (RMB'000)	169,665	203,091	203,318	175,535
Percentage of total revenue (%)	12.1	13.5	11.4	23.9
Gross profit (RMB'000)	35,480	24,086	29,098	29,952
Operating loss (RMB'000)	(50,585)	(55,331)	(43,000)	(59,816)

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Same-Store Sales

We also closely track the revenue generated by our direct stores in the most recent accounting period relative to the revenue it generated in a similar period in the past, or same-store sales growth, to monitor how matured stores have performed over time. We see this also a useful metric to differentiate between revenue growth that comes from new stores and growth from improved operations at existing outlets.

Our stores generally have achieved growth during the Track Record Period. We also endeavor to constantly improve the performance of our stores, by offering a variety of services with high value, improving store operation efficiency, and harvesting cross-selling opportunities through our existing service offerings. However, we experienced negative same-store growth rate across our developing and matured stores of traditional beauty service stores, CellCare stores and Neology healthcare centers and may continue to experience negative same-store growth rate in the future. For more details of the relevant risks, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Our Customers — We may not be able to maintain and increase the sales and profitability of our existing stores.”

The following table sets forth details of our same-store sales during the Track Record Period:

	Year ended December 31,		Year ended December 31,		Six months ended June 30,	
	2019	2020	2020	2021	2021	2022
Number of same stores⁽¹⁾						
Traditional beauty service stores						
– Newly-established stores ⁽²⁾	25		28		21	
– Developing stores ⁽²⁾	51		50		53	
– Matured stores ⁽²⁾	48		57		62	
CellCare stores	13		14		17	
Neology healthcare centers	3		4		4	
Total	140		153		157	
Same-store sales (in thousands of RMB)						
Traditional beauty service stores						
– Newly-established stores ⁽²⁾	67,096	81,147	81,460	116,058	32,747	34,524
– Developing stores ⁽²⁾	250,899	236,720	220,446	265,141	122,700	106,574
– Matured stores ⁽²⁾	424,174	392,594	440,189	520,282	259,711	220,613
CellCare stores	434,012	516,808	555,301	658,935	338,634	272,929
Neology healthcare centers	36,900	32,144	34,438	43,592	22,699	19,183
Overall	1,213,081	1,259,413	1,331,834	1,604,008	776,491	653,823

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	Year ended December 31,		Year ended December 31,		Six months ended June 30,	
	2019	2020	2020	2021	2021	2022
	Same-store growth rate					
Traditional beauty service stores						
– Newly-established stores ⁽²⁾	20.9%		42.5%		5.4%	
– Developing stores ⁽²⁾	(5.7%)		20.3%		(13.1%)	
– Matured stores ⁽²⁾	(7.4%)		18.2%		(15.1%)	
CellCare stores	19.1%		18.7%		(19.4%)	
Neology healthcare centers	(12.9%)		26.6%		(15.5%)	
Overall	3.8%		20.4%		(15.8%)	

Notes:

- (1) Referring to stores that were open for more than 300 days in both of the two years under comparison or for more than 150 days in both of the six months under comparison.
- (2) The development stage of each same store during the years under comparison was its development stage as of the end of the first year.

Organic Growth and Acquisitions

As part of our growth strategy, we intend to continue expanding our store network via organic growth and acquisitions to strengthen our presence in our target markets.

Organic Growth

Leveraging our successful track record and highly scalable business model, we currently plan to further expand our store network in tier-one and new tier-one cities. For more details of our expansion plan, see “Future Plans and Use of Proceeds” in this prospectus.

The following sets forth the key steps of opening a new store:

- *Strategic planning and market research.* Our management will review market data and evaluate our internal resources to determine the cities where we plan to open new stores. We will also consider if there is a risk of cannibalization between new stores and existing stores;
- *Site selection and lease negotiation.* Our business development personnel will make site visit to the target cities, select the location of our new store based on the site selection criteria as disclosed below, and negotiate and enter into lease with the relevant property owners;

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- *Design.* We will design our stores following the applicable PRC laws and regulations, and file our design plans with the local regulatory authority for approval;
- *Construction and decoration of stores.* Upon the approval of our design plans by the relevant authorities, we will engage third party contractors to conduct construction and decoration for our new stores; and
- *Inspection and commencement of operations.* Upon completing of the construction, the relevant local authorities will conduct an inspection over our stores in respect of fire safety, environmental compliance and others. Operations should commence after regulatory approval processes and necessary inspections have been completed.

In addition to the above steps, the opening of a new store may also involve the recruitment of necessary personnel and the purchase of equipment and supplies. The typical lead time from the completion of site selection to store opening is approximately three months. We believe the location of a store is critical for a store's long-term success, and we carefully consider potential markets and conduct a systematic evaluation of each potential new store site. Our site selection criteria primarily include:

- GDP *per capita* and population density of the city;
- presence of activity centers, such as offices, shopping complexes and residential areas that generate guest traffic;
- accessibility by public transportation, traffic conditions and parking space;
- our current store network and number and nature of competitors in the commercial district; and
- rental costs and estimated return on investment.

As part of our continued efforts to provide exceptional client experience and high standard level of client care, we also plan to upgrade our existing stores. For more details of our plans for the upgrade of certain existing stores, see "Future Plans and Use of Proceeds" in this prospectus. We also expect to expand our franchised store network in the future, with a focus on regional planning.

Acquisitions

When appropriate opportunities arise, we will also consider acquiring stores in new markets with a sizable population and a relatively high demand for our services. We believe our previous operating experience will aid us in identifying potential acquisition opportunities and successfully integrating newly acquired stores' operations into our existing network. We systematically review and screen potential store targets, using a number of criteria, including:

- the target's brand prestige and client network;
- the target's compatibility with our growth strategies;
- the target's potentials to achieve synergies with our existing stores;
- the target's potential returns and estimated future value;
- the target's current operations and capacity taking into consideration its service personnel and facilities, required licenses and permits for operations; and
- estimated cost to integrate the acquired business into our operations, ongoing operating expenses and capital requirements.

Our acquisition targets include our franchised stores as well as external stores under other brands. In the latter case, when acquiring an external store, we generally intend to re-brand the acquired store under our existing brands and bring such store in line with our existing standards. After acquisition, we usually try to retain the existing employees at the acquired store, and would provide our standardized training to these existing employees and get them familiar with our culture. To further ensure a smooth transition for the clients at the acquired store, we may keep some service procedures and products, which were previously offered at the acquired store during the transition period, but would also provide customized plans for each client so as to satisfy the client's needs using our own service procedures and products. We will gradually move relevant information at the acquired store into our own database and the acquired store will be integrated into our existing operational management including procurement, finance and human resource. We may also consider retaining the brand when the acquired brand has a nationwide presence. In such case, we will consolidate the overlapping functional department between us and the acquired brand, with a focus to retain original business development personnel of the original brand. We would gradually replace the IT systems of the acquired brand with ours. As for procurement, we will consider consolidating the overlapping suppliers so as to increase our purchase amount and reduce costs. The acquired brand will be integrated into our existing operational management including procurement, finance and human resource. To mitigate any potential contingent or unforeseen liabilities, we may also seek liability protection or indemnity from the sellers from time to time.

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To further manage our expansion efforts, we have in place procedures to avoid cannibalizations within our service network. To avoid market cannibalization, for our BeautyFarm (美麗田園) store network, we generally do not authorize franchised stores in cities we have direct stores, and we also do not open direct stores in cities we have franchised stores. As of June 30, 2022, most of our direct BeautyFarm (美麗田園) stores and franchised BeautyFarm (美麗田園) stores were located in different cities. On a rare occasion when a direct BeautyFarm (美麗田園) store and a franchised BeautyFarm (美麗田園) store were located in the same city, they generally were not located in the same district, and as such, the risk of cannibalization between direct BeautyFarm (美麗田園) stores and franchised BeautyFarm (美麗田園) stores is relatively low. Per the franchise agreement, we have the right to authorize the location for a franchised BeautyFarm (美麗田園) store, which could also avoid cannibalization between direct BeautyFarm (美麗田園) stores and franchised BeautyFarm (美麗田園) stores. For our Palaispa (貝黎詩) store network, we generally do not open a new store within a two-and-a-half-kilometer radius of an existing store and we generally prohibit one store from recruiting an employee at a same-city store when such employee is still working for the other store or left the other store for less than a year, unless mutual consent is reached between the two stores. Per the franchise agreement, we have the right to authorize the location for a franchised Palaispa (貝黎詩) store, which could also avoid cannibalization between direct Palaispa (貝黎詩) stores and franchised Palaispa (貝黎詩) stores.

As advised by Frost & Sullivan, as beauty and health management service industry is growing fast, there are adequate potential acquisition targets available in the market that satisfy our criteria. While we are actively identifying opportunities, as of the Latest Practicable Date, we had not signed any agreements with respect to acquisition of stores or had identified any definite acquisition targets.

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TOP TEN STORES

The following table sets forth the revenue, gross profit and relevant operating data of our top ten stores during the Track Record Period and in operation as of the Latest Practicable Date:

Year ended December 31, 2019								
Store name	Service provided	Year of establishment	Revenue	% of total	Gross profit	Gross margin (%)	GFA ⁽³⁾ (sq.m.)	Number of client visits
			RMB'000		RMB'000			
Shanghai Yifeng Waitanyuan CellCare Store (上海益豐外灘源秀可兒店)	Aesthetic medical services	2011	155,195	11.0	93,556	60.3	870	13,663
Beijing Hexin Medical CellCare Store (北京禾欣醫療秀可兒店)	Aesthetic medical services	2017	143,244	10.2	91,218	63.7	1,362	10,474
Wuhan Guoguang CellCare Store (武漢國廣秀可兒店)	Aesthetic medical services	2011	37,214	2.6	20,500	55.1	648	4,143
Chongqing Aishang Liangjiang CellCare Store (重慶愛尚兩江秀可兒店) ⁽¹⁾	Aesthetic medical services	2019	30,574	2.2	17,405	56.9	616	3,253
Shenzhen Joy Time CellCare Store (深圳歡樂時光秀可兒店) ⁽²⁾	Aesthetic medical services	2017	21,595	1.5	11,626	53.8	1,111	2,892
Beijing Jinrongjie BeautyFarm Store (北京金融街美麗田園店)	Traditional beauty services	2007	28,899	2.1	16,870	58.4	632	22,169
Shanghai Ganghui BeautyFarm Store (上海港匯美麗田園店)	Traditional beauty services	2005	25,313	1.8	14,124	55.8	861	13,694
Shanghai Henglong BeautyFarm Store (上海恒隆美麗田園店)	Traditional beauty services	2001	23,265	1.7	12,048	51.8	886	13,893
Beijing Xinguomao BeautyFarm Store (北京新國貿美麗田園店)	Traditional beauty services	2001	22,062	1.6	11,132	50.5	1,014	15,198
Shanghai Yifeng Waitanyuan Neology Health Center (上海益豐外灘源研源健康中心)	Subhealth assessment and intervention services	2018	19,386	1.4	5,408	27.9	1,000	2,386
Total			506,747	36.1	293,888	58.0		

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Year ended December 31, 2020

Store name	Service provided	Year of establishment	Revenue	Gross profit	GFA ⁽³⁾	Number of client visits		
			RMB'000	% of total	Gross margin (%)	(sq.m.)		
Shanghai Yifeng Waitanyuan CellCare Store (上海益豐外灘源秀可兒店)	Aesthetic medical services	2011	181,829	12.1	110,499	60.8	870	12,909
Beijing Hexin Medical CellCare Store (北京禾欣醫療秀可兒店)	Aesthetic medical services	2017	166,864	11.1	106,233	63.7	1,362	10,627
Chongqing Aishang Liangjiang CellCare Store (重慶愛尚兩江秀可兒店) ⁽¹⁾	Aesthetic medical services	2019	38,494	2.6	22,049	57.3	616	3,399
Wuhan Guoguang CellCare Store (武漢國廣秀可兒店)	Aesthetic medical services	2011	29,123	1.9	14,692	50.4	648	2,517
Shenzhen Joy Time CellCare Store (深圳歡樂時光秀可兒店) ⁽²⁾	Aesthetic medical services	2017	29,021	1.9	16,112	55.5	1,111	2,952
Beijing Jinrongjie BeautyFarm Store (北京金融街美麗田園店)	Traditional beauty services	2007	25,440	1.7	13,478	53.0	632	19,459
Shanghai Ganghui BeautyFarm Store (上海港匯美麗田園店)	Traditional beauty services	2005	25,133	1.7	12,474	49.6	861	11,565
Shanghai Henglong BeautyFarm Store (上海恒隆美麗田園店)	Traditional beauty services	2001	22,569	1.5	8,125	36.0 ⁽⁴⁾	886	13,637
Beijing Xinguomao BeautyFarm Store (北京新國貿美麗田園店)	Traditional beauty services	2001	20,057	1.3	9,565	47.7	1,014	13,756
Shanghai Yifeng Waitanyuan Neology Health Center (上海益豐外灘源研源健康中心)	Subhealth assessment and intervention services	2018	19,631	1.3	4,717	24.0	1,000	3,403
Total			558,161	37.1	317,943	57.0		

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Year ended December 31, 2021

Store name	Service provided	Year of establishment	Revenue	Gross profit	GFA ⁽³⁾	Number of client visits		
			RMB'000	% of total	RMB'000	Gross margin (%)	(sq.m.)	
Shanghai Yifeng Waitanyuan CellCare Store (上海益豐外灘源秀可兒店)	Aesthetic medical services	2011	215,618	12.1	128,153	59.4	870	14,952
Beijing Hexin Medical CellCare Store (北京禾欣醫療秀可兒店)	Aesthetic medical services	2017	201,322	11.3	126,903	63.0	1,362	11,938
Chongqing Aishang Liangjiang CellCare Store (重慶愛尚兩江秀可兒店) ⁽¹⁾	Aesthetic medical services	2019	42,965	2.4	21,946	51.1 ⁽¹⁾	616	4,193
Wuhan Guoguang CellCare Store (武漢國廣秀可兒店)	Aesthetic medical services	2011	41,042	2.3	21,755	53.0	648	3,687
Shenzhen Joy Time CellCare Store (深圳歡樂時光秀可兒店) ⁽²⁾	Aesthetic medical services	2017	35,499	2.0	18,032	50.8	1,111	3,333
Beijing Jinrongjie BeautyFarm Store (北京金融街美麗田園店)	Traditional beauty services	2007	28,812	1.6	14,428	50.1	632	21,764
Shanghai Henglong BeautyFarm Store (上海恒隆美麗田園店)	Traditional beauty services	2001	25,461	1.4	9,333	36.7 ⁽⁴⁾	886	15,757
Beijing Xinguomao BeautyFarm Store (北京新國貿美麗田園店)	Traditional beauty services	2001	23,836	1.3	11,665	48.9	1,014	16,290
Shanghai Ganghui BeautyFarm Store (上海港匯美麗田園店)	Traditional beauty services	2005	23,493	1.3	10,921	46.5	861	12,895
Taiyuan Tianmei Xintiandi CellCare Store (太原天美新天地秀可兒店)	Aesthetic medical services	2017	21,588	1.2	12,514	58.0	275	1,776
Total			659,636	36.9	375,650	56.9		

BUSINESS

Six months ended June 30, 2022

Store name	Service provided	Year of establishment	Revenue		Gross profit		GFA (sq.m.)	Number of client visits
			RMB'000	% of total	RMB'000	Gross margin (%)		
Beijing Hexin Medical CellCare Store (北京禾欣醫療秀可兒店)	Aesthetic medical services	2017	87,591	11.9	56,380	64.4	1,362	4,957
Shanghai Yifeng Waitanyuan CellCare Store (上海益豐外灘源秀可兒店)	Aesthetic medical services	2011	56,245	7.7	29,272	52.0	870	4,097
Chongqing Aishang Liangjiang CellCare Store (重慶愛尚兩江秀可兒店) ⁽¹⁾	Aesthetic medical services	2019	23,366	3.2	13,652	58.4	616	2,857
Wuhan Guoguang CellCare Store (武漢國廣秀可兒店)	Aesthetic medical services	2011	19,865	2.7	11,320	57.0	648	1,975
Shenzhen Joy Time CellCare Store (深圳歡樂時光秀可兒店) ⁽²⁾	Aesthetic medical services	2017	15,702	2.1	8,954	57.0	1,111	1,681
Beijing Jinrongjie BeautyFarm Store (北京金融街美麗田園店)	Traditional beauty services	2007	12,471	1.7	6,834	54.8	632	8,939
Xi'an Jinying CellCare Store (西安金鷹秀可兒店)	Aesthetic medical services	2015	10,968	1.5	6,359	58.0	325	998
Taiyuan Tianmei Xintiandi CellCare Store (太原天美新天地秀可兒店)	Aesthetic medical services	2017	10,845	1.5	6,997	64.5	275	973
Beijing Xinguomao BeautyFarm Store (北京新國貿美麗田園店)	Traditional beauty services	2001	10,038	1.4	4,796	47.8	1,014	6,313
Chongqing Jiefangbei Shidai BeautyFarm Store (重慶解放碑時代美麗田園店)	Traditional beauty services	1998	8,685	1.2	5,202	59.9	459	5,824
Total			255,776	34.9	149,766	58.6		

Notes:

- (1) Formerly known as Chongqing Jinkai CellCare Store (重慶金開秀可兒店), which was relocated to a different premise with a larger store size and renamed in July 2021. As compared to revenue at initial stage, we incurred higher rental expenses and relevant fixed costs, due to the relocation, contributing to a lower gross profit margin in 2021.
- (2) Formerly known as Shenzhen Zhonghangcheng Tianhong CellCare Store (深圳中航城天虹秀可兒店), which was relocated and renamed in September 2021.
- (3) For references only, and only referring to the GFA of the relevant store as of June 30, 2022.
- (4) We upgraded our Shanghai Henglong BeautyFarm Store (上海恒隆美麗田園店) in 2020 and enlarged its store size, which resulted in higher rental expenses and relevant fixed costs as compared to revenue at initial stage, contributing to the decrease of the gross profit margin from 2019 to 2020. The outbreak of the COVID-19 also negatively affected its performance. In 2021, due to its upgrade in 2020 and recovery from the negative impact of the COVID-19, Shanghai Henglong BeautyFarm Store (上海恒隆美麗田園店) was able to accommodate more clients, which improved its gross profit margin in 2021.

OPERATION MANAGEMENT AND QUALITY ASSURANCE

Organizational Structure

Headquarters

Our headquarters effectively maintain control over critical aspects of our operation, including pricing, legal compliances, brand and marketing strategies, procurement, information technology, finance and expansion plan management. We believe that these aspects of our operations require standardized management to ensure the quality of our services and efficiency of our resource allocation. Moreover, we believe that standardized operations in these aspects facilitate our scalable expansion.

Regional Centers

Considering that our BeautyFarm (美麗田園) and CellCare (秀可兒) stores are located in a wide variety of cities across China, as of the Latest Practicable Date, we have grouped our BeautyFarm (美麗田園) and CellCare (秀可兒) stores into different regions, and assigned regional managers to supervise the operation of our BeautyFarm (美麗田園) stores or CellCare (秀可兒) stores within a specific region. Our regional managers are mainly in charged of supervising quality assurance and operational and organizational management of the stores within their respective regions.

Stores

The day-to-day operations of our stores are managed by store directors. Our store directors are responsible for inspecting the daily operations, managing our local service team and supervising financial performance of our stores.

Operation Management

We closely supervise the operations of our stores to ensure the quality of our services and to enhance operational efficiency. To effectively manage our store network, we mainly focus on standardization, pricing, store performance, client feedbacks, as well as settlement and cash management.

Standardization

We rely on standardized operation to ensure the consistent quality of our services and the overall client experience across our nationwide store network. We have established a comprehensive set of standards and rules with respect to the key aspects of our store operations, including inventory storage, service preparation, store hygiene, treatment procedures, employee conduct, as well as our staff training programs. For example, our therapists and physicians are required to follow standardized procedures to ensure the service procedures, presentation, quality and hygiene standards to meet our standards. As a result, our clients can receive consistent and high quality services at any of our stores within our network. Standardized operation also allows us to efficiently share knowledge and spread best practices when opening new stores.

Store Performance Evaluation

We conduct service quality control for client satisfaction and special inspections for medical quality control. We also arrange national inspections for quality control checks, such as mysterious shopper and member monitoring. We have strict selection criteria for our franchisees. All of our franchisees have a highly compatible brand positioning, are geographically synergistic with our target market, and use the same operating system as our direct stores. We achieve consistent and high quality service operations nationwide through strict selection, strong supervision and continuous training of our franchised stores, which not only reduces risk, but also protects client interests.

Client Feedback Management

We are dedicated to providing highly quality services and pay close attention to client feedback to ensure great client experiences. Our store directors are responsible for promptly resolving any complaint regarding quality of services at the store level and are authorized to take remedial actions. We also receive feedback or complaints from clients through various online channels and our marketing team is responsible for delivering online feedback or complaints to store directors and other responsible personnel in a timely manner, and addressing these feedback or complaints after the consultation and discussion with the relevant responsible personnel. We have a team who regularly conducts in-depth research and inquiries to further optimize and improve high-quality services to meet client needs. We also conduct monthly service quality control and special inspections for medical quality control. Moreover, our CRM system is thorough, convenient and prompt. Our CRM system covers a prompt response mechanism for inquiries, appointments, complaints and post-service reviews. We would change service manager upon the request of our clients. We also have a revenue recognition system to recognize service fees only after the client is satisfied with the quality of our service. We had an average monthly net promoter score of 85.5% and 87.4% in 2021 and the six months ended June 30, 2022, respectively, reflecting a high level of client satisfaction. For more details, see “— Client Feedback and Complaint Handling” below in this section.

Pricing

Our headquarters determine the pricing of our services and products. None of our stores is a medical insurance designated medical institution (醫保定點醫療機構) and therefore our services are not subject to the pricing guidelines for reimbursement set by the relevant local healthcare insurance authorities in the PRC. We price our beauty and health management services based on certain factors, including complexity of the procedure and the time needed to complete the procedure, technology involved in the procedure, if any, the seniority of physicians and therapists involved, local market conditions and competitors’ pricing of similar services. We would additionally consider (i) the body and skin care products used during the procedure when pricing our traditional beauty services under our BeautyFarm (美麗田園) and and Palaispa (貝黎詩) brands and (ii) the medical devices, injection materials or medical consumables used when pricing our aesthetic medical services under our CellCare (秀可兒) brand and subhealth assessment and intervention services under our Neology (研源) brand. When pricing our body and skin care products, we would take into consideration factors such as

procurement costs of such products, the material used in the product, the reputation of the suppliers, market conditions and competitor's pricing of similar products. We offer the same prices for our products and services at our direct stores and franchised stores. A single procedure or product generally has the same price when purchased online and offline. Our online and offline channels may offer different combinations of services and/or products, and our client managers would introduce such online combinations to a client when the client visits our stores, and if interested, the client can purchase the desired combination directly online. As part of our marketing efforts, we may from time to time offer discounts of our services and products to attract clients, and such discounts need to be approved by our management team. A member may advance her/his membership to a higher level once the member has accumulatively topped up a threshold amount of balances. A member, depending on her/his level of membership, is entitled to a discount ranging from approximately 25% to 50% for our traditional beauty services and a discount ranging from approximately 5% to 20% for our body and skincare products, and a member with a higher level of membership is entitled to more discounts. To attract new clients, we also offer different packages of traditional beauty service procedures at a discount ranging from approximately 65% to 85%. Under each service package, a new client is entitled to a number of different traditional beauty service procedures and a new client is only able to purchase the same discounted service package once. Through offering discounted package of traditional beauty service procedures, we believe we can attract a larger pool of clients, who will become familiar with our brands and confident in the quality of our services and could become our members. When promoting our aesthetic medical services, we will also offer different packages of aesthetic medical service procedures at a discount generally ranging from 10% to 35% and targeting our members. Specifically, we would create discounted packages consisting of aesthetic medical service procedures we intend to promote, such as ultrasound cannon (超聲炮). The discounts we offered to clients are in line with industry practice, according to Frost & Sullivan.

Settlement and Cash Management

We accept cash, credit cards, bank transfer, WeChat Pay, Alipay and other online payment methods at our stores, as non-cash payments become increasingly common. As a result, cash payments as a percentage of total payments from our guests was low during the Track Record Period, and the percentage was approximately 3.1% for the six months ended June 30, 2022. On the other hand, approximately 96.9% of our total payments were settled through mobile payment, credit card or debit card for the six months ended June 30, 2022. As advised by our PRC Legal Advisers, we are not required to obtain any specific license or permits in order to accept mobile payments through WeChat Pay, Alipay and other qualified online payment platforms.

To avoid misappropriation and embezzlement of cash, we have deployed a cash management policy at each of our stores. Store directors are responsible for ensuring that cash received during the day matches the sales records and transferring such cash to our bank accounts on a daily basis. In addition, our finance team monitors the accuracy of sales records through payment systems installed at our stores and cash balances in our bank accounts on a daily basis.

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During the Track Record Period, we had not encountered any incident of cash misappropriation or embezzlement that had a material adverse impact on our business, results of operations or financial condition.

Quality Assurance

Our management priority is to offer superior beauty and health management services. To this end, we have adopted comprehensive and stringent quality assurance and control measures throughout our business process, which cover, among others, the following areas:

Service Quality Assurance

We have conducted below service quality assurance practices as part of our comprehensive service quality control system:

- We have implemented client service guidelines. It details the rules for client reservations and our service requirements. The purpose of our service is to give our clients uncompromising care and to create a client-centric corporate core competence.
- We have established standards for use of client service supplies. Our standards require that items such as bed sheets and bath towels served to clients must be disinfected before being served to a different client to ensure hygiene and safety.
- We have implemented operational safety guidelines and manuals for performing service procedures and the use of treatment devices, detailing the contents and standards for each step of our service processes from client registration to post-procedure follow-up. We have also implemented a series of internal management rules to discipline the behavior of our service personnel.
- We implement standard operation procedures at our stores and a clear division of labor to ensure that our clients can receive high-quality services in any of the stores in our network. Our physicians and trained therapists are mainly responsible for performing service procedures while our client managers are mainly responsible for sales and promotion. Such internal structure and well-defined responsibilities are established for the purpose of segregating the powers of operations, sales and client service to achieve effective check and balance.
- We regularly conduct review of the performance of our physicians and other service personnel. Our service personnel are properly trained when joining us and accept on-the-job training regularly. For details, see “— Service Personnel” below in this section.

Medical Device and Consumables Quality Assurance

In order to complement our services, we currently sell over 50 body and skin care products at our direct and franchised stores, which generally have a shelf life from one to three years. Our body and skin care products include creams, moisturizers, oils and mixtures of other chemical compounds that cleanse, firm and/or moisturize the body and skin. We also sell an insignificant amount of prepackaged high-protein food, such as protein bars and powdered drink mixes, but we do not provide catering services. We generally do not accept product returns except for quality reasons. If a product is sold on an online platform, we may follow the standard product return and warranty policy available at the relevant online platform. During the Track Record Period, we offered both branded products and private label skincare products that were sourced from Independent Third Party suppliers. These Independent Third Party suppliers are primarily engaged in the import, distribution, packaging and sales of skincare and beauty products. We have over five years of business relationships with most of those suppliers. During the Track Record Period, we had not been subject to any material product liability claim, had not received any material complaints about the quality or safety in relation to our products nor did we have any product recall and any material product return and as such we currently do not maintain a product recall procedure given the limited amount of products we sell. Despite our quality assurance measures, we may be held liable for selling our products, and for details, see “Risk Factors — Risks Relating To Our Business and Industry — Risk Relating To Our Suppliers and Employees — We do not have full control over the quality of medical and beauty equipment, medical supplies, injection materials, skincare products and other consumables we use in providing our services” in this prospectus.

We place great importance on the medical devices and medical consumables that are introduced into our stores to ensure that they are reliable and capable of providing the desired results to our clients. To this end, we have developed policies and procedures for the assessment and evaluation of medical devices and medical consumables. We have developed supplier management rules and supplier qualification management process to ensure that our suppliers provide qualified medical supplies. When procuring medical devices, we will select qualified supplier candidates from our supplier list and have preliminary discussions with them. We will ask the suppliers to provide their qualifications and all requisite licenses, certifications and/or regulatory approvals of medical devices for our legal department to review, after which relevant procurement terms will be internally discussed. Once agreed, we will enter into procurement agreement with the relevant medical device supplier. During the Track Record Period, we did not enter into any collaboration agreement with a medical device manufacturer. We represent several leading foreign suppliers as their only agent in China. We have approximately 90% of our products being imported. We bring in the leading international beauty and health management technology and select products with high standards. We screen products and conduct product testing on all imported products for months before launching them. For more details, see “— Suppliers, Procurement and Inventory Management” below in this section.

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SERVICE PERSONNEL

The qualification and expertise of our service personnel are critical to our competitiveness and long-term success. Our physicians and nurses are required to be registered in accordance with the relevant healthcare administrative authorities in the PRC. We closely monitor the qualification registration and licensing records to ensure that all physicians and nurses practicing within our network comply with all applicable requirements under PRC laws and regulations. During the Track Record Period and up to the Latest Practicable Date, our physicians and nurses had obtained relevant requisite qualifications and were registered with local authorities in accordance with applicable laws and regulations. Our trained therapists are not required to be licensed or registered under applicable PRC laws and regulations, but we will provide training to all therapists and require all therapists to pass our internal evaluations before commencing their jobs.

As of the Latest Practicable Date, we are not aware of any litigations or claims that our physicians were subject to in relation to their providing services to our clients.

The following table sets forth a breakdown of our service personnel team members at our stores as of June 30, 2022:

<u>Service personnel</u>	<u>As of June 30, 2022</u>
Registered Physicians	
– Dermatologists	47
– Surgeons	26
– Anesthesiologists	5
– Physicians providing medical consultation and management services*	26
– Radiologists	6
Registered nurses	128
Pharmacists	13
Trained therapists providing traditional beauty services	1,489
Store directors	158
Total	1,898

Note:

* Including internists, Chinese medicine practitioners, and gynecologists.

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Our registered physicians are responsible for providing aesthetic medical services and subhealth assessment and intervention services. For example, our dermatologists will perform non-surgical aesthetic medical services, while our surgeons can perform non-surgical aesthetic medical services and surgical aesthetic medical services. Our anesthesiologists with requisite licenses and training will be asked to administer anesthesia for our surgical aesthetic medical services, and our internists, Chinese medicine practitioners and gynecologists provide general medical consultation and management services. Our radiologists provide medical imaging services. Our trained therapists mainly perform service procedures for our traditional beauty services, which are non-medical and non-invasive in nature. Our registered nurses mainly assist our registered physicians with completing relevant service procedures. Our store directors do not perform service procedures but are in charge of the day-to-day operations of our stores.

We have maintained a relatively stable service personnel team during the Track Record Period even though the number of our physicians experienced significant growth in the past three years. According to Frost & Sullivan, we achieved one of the few highest service personnel service personnel annual retention rates of 74.0% in 2021 within the beauty and health management service industry.

We believe our experienced service personnel are key to our success. We have assembled a team of experienced service personnel. Among all the service personnel who have stayed with us for more than one year, they have an average of 6.1 years of retention. We generally recruit service personnel with relevant practice experience. We conduct eligibility searches on the candidates to be recruited to ensure they have the required work experience and qualifications for the new positions. We believe that we provide our service personnel with competitive compensation packages, continued medical education opportunities, nice working environment and career development.

In general, our service personnel are compensated by fixed salaries and allowance. Depending on their job functions, some of our service personnel are also compensated by performance-based bonuses based on their ability to meet or exceed the applicable key performance indices set by the management such as difficulty and number of service provided and overall store performance, which may be modified from time to time according to business needs. Specifically, (i) our registered physician is compensated by a fixed salary and allowance, along with performance-based bonus, which depends on, among other things, the relevant working experience and reputation of the registered physician, the number and nature of procedures such registered physician has performed, and the complexity and difficulty of the services provided. The bonus of our registered physicians is depending on the provision of the services provided not on selling products or services. In other words, they do not promote our product or service in exchange for compensation. In addition, our physicians are not compensated by share incentives; (ii) our trained therapist is compensated by a fixed salary and allowance. They can also earn bonus for performing service procedures or selling our services and products; (iii) our store director is generally compensated by a fixed salary, allowance and bonus, which is largely based on financial performance of the store, but generally will not be compensated for selling our services or products. In addition, most of our store directors are also compensated by share incentives; (iv) our registered nurse is compensated by a fixed

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salary and allowance, along with performance-based bonus, depending on the nature of procedures such registered nurse has assisted with; and (v) our pharmacist is compensated by fixed salary and allowance, generally without bonus. In addition, our client manager or health consultant is compensated by a fixed salary as well as bonus of selling our services and products. To prevent our employees from participating in excessive or unethical selling and maintain our brands and reputation, we have distributed to our employees *Notice Regarding Restrictions on Illegal Operation* 《限制各類非法經營》 and require our employees to engage in reasonable selling practice, which should be based on our clients' genuine needs, and prohibit forced selling. Our quality assurance measures such as mysterious shopper, customer questionnaire and store inspection can also detect and prevent excessive or unethical selling by our employees as such behaviors would negatively affect the quality of services we provided.

Although we attach significant value to the contribution of our physicians, we believe that we do not have any undue reliance on our key physicians. During the Track Record Period, our non-director highest paid employees are registered physician at our CellCare (秀可兒) stores and Neology (研源) healthcare centers. The revenue contributed by the our non-director highest paid physicians accounted for 5.2%, 10.0%, 11.7%, and 8.3% of our total revenue in 2019, 2020, 2021 and six months ended June 30, 2022, respectively. The emoluments of these physicians include a relatively higher bonus because we adopted a performance-based compensation scheme in addition to fixed salaries, in order to incentivize our physicians, and to boost our overall business performance. The effective implementation of the performance-based compensation scheme had enabled us to properly reward and incentivize our physicians, particularly the top performers, based on their respective contribution to our business growth. According to Frost & Sullivan, such remuneration packages (including their compositions) we provide to these physicians were generally in line with the market norm during the Track Record Period, and were commonly adopted by other aesthetic medical service institutions. Each of our non-director highest paid physicians has been practicing for years and has rich relevant industry experience. In addition, these physicians are relatively stable and most of them remain in service at our Group.

We have established two BeautyFarm Training Centers (美麗田園培訓中心) in Shanghai and Wuhan to cultivate trained service personnel for our traditional beauty services. Our employees are required to participate in the unified "BeautyFarm Training Center (美麗田園培訓中心)" training before they start their jobs and will participate another session of "BeautyFarm Training Center (美麗田園培訓中心)" prior to their promotions, where they learn standardized service processes and awareness of service quality. After completing the training, employees will receive technical certifications. To ensure quality and consistent services across our service network, we also provided the same training to employees of our franchised stores. And we occasionally provided training to a limited number of personnel outside of our service network. We also provide promotion opportunities for our employees. For example, we have off-the-job training for therapists during store operations to help employees advance in their career paths and be promoted to become store directors.

INFORMATION TECHNOLOGY

We have industry-leading digital information management systems that fully empower our integrated service platform and business operation to maximize business and management synergies, enhance operational efficiency, achieve business innovation and improve client experience. Through 29 years of operation, our digitalized platform has accumulated a large amount of data, based on which we have built several models around business operations:

- *Regional development model.* The regional development model provides us deep analysis for our acquisition strategies. The analysis indicators mainly include the spending power of members, the number of members to be acquired, and the staff service capabilities of the target to be acquired.
- *Store operation supporting model.* This model creates comprehensive client tags to break through the information barrier that is common in the industry. The fully integrated and shared information has achieved efficient synergy among different brands, as well as among direct stores and franchised stores. Real-time data exchange improves our consistent high-quality service and enhances our ability to provide a superior client experience.
- *Client analysis model.* The client analysis model boosts our client lifecycle management. With our growing database, we also apply data mining and data analytics to obtain valuable data insights into our clients to profile their transaction patterns, consumption habits, and lifetime client value. For instance, when we provide beauty and health management services, we digitize and systematize detailed information about the client, such as maintenance requirements, consumption patterns, and behavioral preferences, in order to encourage repeat business by offering favorable service procedures.
- *Employee development model.* Our employee development model enables us to track the career path of our employees and help frontline employees improve their performance. For example, this system can automatically record the training programs and seminars attended, the service hours achieved by the employees, and also recognize staff talent through comprehensive analysis of clients' feedback.

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We seek to be a pioneer in the application of latest digital technologies in China's beauty and health management service industry, while focusing on enhancing client experience and increasing operating revenue. Some of our efforts to enhance digital management are listed below.

- *ERP system.* Our real-time inventory management ERP system, which was launched in 2020, controls the entire process of collection, sale, and centralized distribution from warehouse to stores. The ERP system also improves the operational efficiency of franchised stores and unifies the store service quality.
- *SPA Service Housekeeper system.* SPA Service Housekeeper is a store management platform that facilitates our business operations in three areas: (i) management of clients' accounts, (ii) monitoring of frontline staff's key performance indicators and (iii) computerization of financial and administrative management tools for service stores. For example, it enables us to manage our clients' service session bookings electronically, increasing our accuracy and efficiency while reducing paperwork required. It also enables our management as well as frontline staff to access real-time data to frontline staff's key performance indicators such as sales performance, and thus giving our management useful information for decision making, as well as giving our frontline staff information such as the up-to-date and transparent information regarding their performance and thereby encouraging productivity.
- *CRM system.* We have accumulated a huge amount of client data through our CRM system, covering 96 client tags as of the Latest Practicable Date, with a plan to accumulate over 400 client tags in the future. Our deep insights allow us to efficiently meet our clients' existing needs while further exploring and satisfying their potential needs. For example, we digitize and systematize the clients' in-depth information, including service requirements, consumption trajectories, and behavioral preferences. This enables us to maintain continuous interaction with our clients and to better understand our clients' other personalized needs in beauty and health management services, allowing us to provide services based on our clients' demands.
- *BeautyFarm mini program.* We launched a BeautyFarm mini program in early 2020, where clients can check store information and availability, book appointment online, view member benefits, transfer membership to another preferred store, redeem promotional code, give feedback, view product or procedure information, and participate in online marketing activities, etc..

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DEVICES AND EQUIPMENT

Our key medical devices are mainly used for our aesthetic medical services and subhealth assessment and intervention services. Our medical devices have been thoroughly evaluated and assessed by physicians, based on their clinical knowledge and experience, to ensure that they are safe and capable of producing the desired results for our clients. According to Frost & Sullivan, physicians need to ensure that the medical device products are within the period of validity, check the packaging integrity of sterile products and make sure the medical device equipment runs normally before each treatment procedure. During the treatment procedure, the operation by a physician can also affect safety and effectiveness of such medical device, which according to Frost & Sullivan, is backed by sufficient clinical knowledge and experiences of the physician. To protect our clients and maintain our reputation, we have procedures in place to ensure our physicians' compliance in using our medical devices. For example, when we begin adopting a new medical device or applying an existing medical device to a new scenario, we would ask the supplier of such medical device to offer relevant training to our physicians and provide guidance on the operating methods, operating procedures and applicable operating parameters. However, despite our efforts to ensure physicians' compliance in using the medical devices, we may still be held jointly liable if our physicians misuse our medical devices causing injuries to our clients. The following table summarizes the information of our key devices used by our direct stores as of June 30, 2022:

<u>Type of devices</u>	<u>Number of devices</u>	<u>Approximate estimated average age of machine</u> <i>(years)</i>	<u>Approximately estimated remaining lives*</u> <i>(years)</i>	<u>Net book value as of June 30, 2022</u> <i>(RMB'000)</i>
Anesthesia	8	3.1	1.9	471
Surgery-related	31	2.7	2.3	718
Cryolipolysis	6	0.8	4.2	2,501
Radiofrequency	30	1.9	3.1	6,264
Intense pulsed light	20	1.5	3.5	6,728
Laser	67	3.3	1.7	7,556
Overall	162	2.6	2.4	24,239

Note:

* The actual year that we will use these devices may be different from the estimates due to reasons such as periodic maintenance.

For details of our quality assurance and control measures in purchasing medical devices, see “— Operation Management and Quality Assurance — Quality Assurance — Medical Device and Consumables Quality Assurance” in this section. We plan to continuously improve and upgrade our facilities and equipment to provide better services to our clients, which improvement and upgrade will be partially funded with proceeds from the Global Offering. For details, see “Future Plans and Use of Proceeds” in this prospectus.

CUSTOMERS

Major Customers

During the Track Record Period, our customers mainly consisted of individual clients and franchisees. None of the total sales to any clients accounted for more than 0.5% of our total revenue and the sales to our five largest customers in total accounted for less than 2.0% of our total revenue during the Track Record Period. A client becomes a member when the client tops-up a threshold amount of account balance and enters into a standard membership agreement with us and has her/his basic information entered into our system. For our individual members, we generally enter into standard membership agreement with them, under which eligibilities, rights, privileges and obligations of our membership are stipulated. We generally do not extend any credit periods to our customers. A member, due to personal reasons such as change of place of residence, may request to transfer her/his original preferred store to a different store, through our mini program, service hot-line or client managers. Once the request is approved by us, such member's preferred location will be changed to a different store, and the member can have a new designated client manager at the new store.

Shanghai Luanmei was one of our largest five customers in 2021, accounting for 0.3% of our sales for the year, and had been our subsidiary before its disposal by us in 2020. For more details, see "History, Reorganization and Corporate Structure — Acquisition of Beijing Palaispa and Shanghai Luanmei" in this prospectus. Except for Shanghai Luanmei, to the best knowledge and belief of our Directors, our five largest customers during the Track Record Period were Independent Third Parties. None of our Directors or their close associates or any of our Shareholders (who, to the best knowledge of our Directors, beneficially own more than 5% of our share capital) had any interest in any of our five largest customers other than Shanghai Luanmei during the Track Record Period.

Prepaid Package

Depending on the needs of our clients and type of services, one-off service session, multiple service sessions of a single procedure or multiple types of procedures may be recommended to our clients to achieve desired results. Our clients may choose to pay for each service session either using their account balance, which will not expire, or through cash, mobile payments, credit/debit card and bank transfer. Our clients may also purchase prepaid package in respect of multiple service sessions and multiple types of procedures. The following set forth the main characteristics of our prepaid package during the Track Record Period:

- generally a discount is offered;
- no expiration date;
- the number and type of services in each prepaid package is designed based on recommendations from our physician or therapists;

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- while our physicians or trained therapists perform pre-service screening in accordance with the applicable industry standards for our aesthetic medical services and subhealth assessment and intervention services, in circumstances where a client has experienced side effects or developed an allergy to a particular service, subject to our practitioner's medical evaluation, we would offer the client a refund or an opportunity to choose another prepaid package.

Payments received for prepaid packages are recorded as contract liabilities in our consolidated balance sheet at the time of payment and are subsequently recognized as revenue in our consolidated statements of profit or loss at the time when the service is performed and also confirmed. For more details, see "Financial Information — Discussion of Certain Selected Items from the Consolidated Statements of Financial Position — Contract Liabilities" in this prospectus. When the likelihood of our clients returning to use their previously purchased prepaid packages become remote, for financial reporting purpose, the unused prepaid packages will be fully recognized as forfeited revenue forming part of the revenue in the consolidated statements of profit or loss. Such forfeited revenue is regarded as revenue generated in the ordinary course of our business. For more details of accounting treatment of our prepaid packages, see "Financial Information — Significant Accounting Policies and Critical Accounting Judgments and Estimates — Critical Accounting Estimate — Revenue Recognized From Unutilized Prepaid Packages" in this prospectus.

It is our policy that unfair trade practices (such as using harassment, coercion, or undue influence to impair clients' freedom of choice) are unlawful and are strictly prohibited in our Company. We do not make any commission payments to our physicians for selling prepaid packages. We believe these policies will properly incentivize our staff, and duly protect the interests of our clients and guarantee the quality of our services at the same time. We designed our prepaid packages with references to the applicable best practice guidelines issued by the relevant consumer protection bodies. We have also adopted several internal policies to avoid unscrupulous sales practices. For more details, see "— Environmental Sustainability and Social Responsibility — Social Responsibility" in this section. The finance department at our headquarters monitors our balance of contract liabilities to ensure we have sufficient cash and cash equivalents to satisfy clients' requests for refunds of the unutilized balance of the prepaid packages. Furthermore, we have maintained commercial prepaid card insurance or have placed deposits to certain banks as a security for prepaid cards to lower any risks in this regard. We have also established procedures for recording and handling feedback and complaints to ensure timely and proper response is provided to our clients. For more details, see "— Client Feedback and Complaint Handling" in this section.

SUPPLIERS, PROCUREMENT AND INVENTORY MANAGEMENT

Major Purchases and Suppliers

During the Track Record Period, our suppliers primarily included suppliers of body and skin care products and medical consumables. During the Track Record Period, we did not experience any interruption in our supplies, shortage of supplies, early termination of supply agreements, or failure to secure sufficient supplies that had any material adverse impact on our business or results of operations. Our suppliers generally offer us a credit term of 0 to 90 days. We typically settle trade payable obligations with respect to our suppliers through bank transfers.

We enter into long-term framework supply agreements with our major suppliers, with a term generally ranging from one year to three years. In particular, during the Track Record Period, certain suppliers overseas had a longer supplier term with us for seven and half years. The material terms of the agreements are as followed:

- *Quality.* We generally provide detailed specifications regarding the quality of the products supplied. We require the products to conform to relevant international, national and industry standards and require suppliers to provide an inspection report or a certificate of quality.
- *Quantity and Pricing.* We generally stipulate the price in the agreements but set out the purchase amount in the purchase orders we place from time to time. Occasionally, we may stipulate a minimum purchase amount per order or per a stipulated period of time.
- *Delivery schedule.* We generally stipulate the delivery schedule in our agreements, which depends on the types of product procured and generally ranges from 10 days to 180 days.
- *Inspection and Acceptance.* The products are subject to our inspection upon arrival at the stipulated place, and we may refuse acceptance of any defective products. In case of quantity, quality, packaging or any other stipulated defect, we are entitled to replacement, refund or compensation by the suppliers pursuant to the supply agreements.
- *Most favorable clause.* Whenever feasible, we require the supplier to give us prices that are no less favorable than those given to any other client within the same region.
- *Payment.* Depending on the type of product procured, we will make the full purchase price to our suppliers prior to shipment of or upon receipt and acceptance of the products or settle payments with our suppliers in accordance with the payment schedule stipulated in the agreements.

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During the Track Record Period, we have not experienced any material shortage or delay in the supply of inventories and consumables. For each of 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from our five largest suppliers in each year/period during the Track Record Period amounted to RMB78.9 million, RMB86.4 million, RMB154.8 million and RMB70.0 million, respectively, representing approximately 46.5%, 41.0%, 48.8% and 52.4%, respectively, of our total purchases for the respective periods. For each of 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from our largest supplier in each year/period during the Track Record Period amounted to RMB22.8 million, RMB28.7 million, RMB48.6 million and RMB29.3 million, respectively, representing approximately 13.5%, 13.6%, 15.3% and 21.9%, respectively, of our total purchases for the respective periods.

The following tables set forth the basic information of our top five suppliers during the Track Record Period:

Supplier	Name	Country	Principal business	Product or service supplied	Credit term for 2019	Purchase amount	Percentage of total purchases	Length of relationship	Payment method
						(RMB'000)			
Supplier A	DEYNIQUE Cosmetics GmbH	Germany	Manufacture and sales of cosmetics	Body and skin care products	N/A	22,836	13.5%	27 years	Bank transfer
Supplier B	Dr. BABOR GmbH & Co. KG	Germany	Manufacture and sales of cosmetics	Body and skin care products	60 days	19,470	11.5%	Five years	Bank transfer
Supplier C*	China National Pharmaceutical Group Co., Ltd.	China	Sales of drugs and medical equipment	Medical consumables	N/A	17,879	10.5%	Five years	Bank transfer
Supplier D	MedSkin Solutions Dr. Suwelack AG	Germany	Manufacture and sales of cosmetics and medical devices	Body and skin care products	N/A	9,940	5.9%	20 years	Bank transfer
Supplier E	WEYERGANS HIGH CARE AG	Germany	Manufacture and sales of cosmetics	Body and skin care products	Upon delivery	8,810	5.2%	17 years	Bank transfer

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Supplier	Name	Country	Principal business	Product or service supplied	Credit term for 2020	Purchase amount	Percentage		
							of total purchases	Length of relationship	Payment method
(RMB'000)									
Supplier C*	China National Pharmaceutical Group Co., Ltd.	China	Sales of drugs and medical equipment	Medical consumables	N/A	28,682	13.6%	Five years	Bank transfer
Supplier B	Dr. BABOR GmbH & Co. KG	Germany	Manufacture and sales of cosmetics	Body and skin care products	60 days	20,190	9.6%	Five years	Bank transfer
Supplier A	DEYNIQUE Cosmetics GmbH	Germany	Manufacture and sales of cosmetics	Body and skin care products	N/A	16,629	7.9%	27 years	Bank transfer
Supplier F*	Shanghai Qingyi Technology Co., Ltd.	China	Technology development, sales and rental of beauty equipment	Medical consumables and beauty equipment	N/A	12,733	6.0%	Four years	Bank transfer
Supplier G	Bloomage Biotechnology Corporation Limited	China	Manufacturing and marketing of medical equipment and cosmetics	Body and skin care products and medical consumables	Upon delivery	8,185	3.9%	12 years	Bank transfer

Supplier	Name	Country	Principal business	Product or service supplied	Credit term for 2021	Purchase amount	Percentage		
							of total purchases	Length of relationship	Payment method
(RMB'000)									
Supplier C*	China National Pharmaceutical Group Co., Ltd.	China	Sales of drugs and medical equipment	Medical consumables	N/A	48,560	15.3%	Five years	Bank transfer
Supplier F*	Shanghai Qingyi Technology Co., Ltd.	China	Technology development, sales and rental of beauty equipment	Medical consumables and beauty equipment	N/A	37,240	11.7%	Four years	Bank transfer
Supplier B	Dr. BABOR GmbH & Co. KG	Germany	Manufacture and sales of cosmetics	Body and skin care products	60 days	31,093	9.8%	Five years	Bank transfer
Supplier A	DEYNIQUE Cosmetics GmbH	Germany	Manufacture and sales of cosmetics	Body and skin care products	N/A	25,344	8.0%	27 years	Bank transfer
Supplier D	MedSkin Solutions Dr. Suwelack AG	Germany	Manufacture and sales of cosmetics and medical devices	Body and skin care products	N/A	12,604	6.0%	20 years	Bank transfer

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Supplier	Name	Country	Principal business	Product or service supplied	Credit term for the six months ended June 30, 2022	Purchase amount	Percentage of total purchases	Length of relationship	Payment method
(RMB'000)									
Supplier B	Dr. BABOR GmbH & Co. KG	Germany	Manufacture and sales of cosmetics	Body and skin care products	60 days	29,300	21.9%	Five years	Bank transfer
Supplier C*	China National Pharmaceutical Group Co., Ltd.	China	Sales of drugs and medical equipment	Medical consumable	N/A	13,712	10.3%	Five years	Bank transfer
Supplier F*	Shanghai Qingyi Technology Co., Ltd.	China	Technology development, sales and rental of beauty equipment	Medical consumables and beauty equipment	N/A	9,908	7.4%	Four years	Bank transfer
Supplier H	Hunan Peninsula Medical Technology Co., Ltd.	China	Sales of medical equipment and cosmetics	Medical equipment	N/A	9,439	7.1%	One year	Bank transfer
Supplier D	MedSkin Solutions Dr. Suwelack AG	Germany	Manufacture and sales of cosmetics and medical devices	Body and skin care products	N/A	7,613	5.7%	20 years	Bank transfer

Note: * Acting as domestic agents for the imported body and skin care products and medical consumables we purchased.

During the Track Record Period, we mainly purchased i) aloe vera serum and gel from Supplier A; ii) facial essence, eye cream and facial cream from supplier B, iii) injectable hyaluronic acid and botulinum toxin type A from supplier C, iv) massage gel and facial masks from supplier D, v) massage equipment and body and skin serum from supplier E, vi) radiofrequency equipment from supplier F, vii) hyaluronic acid facial masks and water essence from supplier G, and viii) ultrasound cannon (超聲炮) from supplier H. Supplier A, D and E are overseas suppliers, which generally do not grant credit terms. Supplier C and F are domestic agents for the imported body and skin care products and medical consumables we purchased, and they generally do not offer credit terms to domestic clients. We procured customized products from Supplier G, and such transactions are settled without credit terms.

All of our top five suppliers during the Track Record Period were Independent Third Parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our top five largest suppliers required to be disclosed under the Listing Rules.

Procurement

We have maintained a list of suppliers approved by our senior management team. For any given type of raw materials or supplies, we typically have multiple suppliers in order to obtain competitive prices from suppliers, maintain sourcing stability and avoid over-reliance risk. The procurement department enters into procurement agreements after negotiating with the suppliers on commercial terms such as price and quantity, and some supplies are subject to a tender process. Our legal department keeps the original copy of the procurement agreements for record.

We select our suppliers based on stringent criteria and applicable laws and regulations to ensure the quality of our supplies. When selecting suppliers, we consider, among other things, their product quality, product offerings, pricing, reputation, service quality and delivery schedule. Our suppliers are required to possess all licenses and permits necessary to conduct their operations.

In 2019, 2020, 2021 and the six months ended June 30, 2022, our cost of products and consumables used amounted to RMB238.1 million, RMB276.8 million, RMB306.8 million and RMB125.0 million, respectively, representing 34.2%, 34.5%, 32.4% and 29.7% of our total cost of sales and services for the same years, respectively. We have also established a return and replacement management system and return defective or expired products to suppliers in accordance with market practice. During the Track Record Period, we have not encountered quality problems or received defective products that could have a material adverse effect on our business, financial condition or operations.

Inventory Management

The inventory at our stores mainly includes body and skin care products and medical consumables, which amounted to RMB77.2 million, RMB65.3 million, RMB97.3 million and RMB117.4 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. Our supplies are delivered by suppliers in accordance with purchase orders and placed in warehouses that meet storage standards based on their categories after they are inspected and accepted by warehouse management personnel. We carry out overall inventory management through our ERP system, which records the stock level of our inventory and past purchase records. We comply with the storage requirements and laws and regulations related to medical and non-medical commodities during the storage period.

We strictly monitor our commodities in inventory, conduct regular physical inventory counts and establish a monthly-based inventory cycle to meet the demand of our stores. We closely monitor the shelf life of all products and medical devices, and once any product expires or medical device reaches the end of its service life, we safely dispose of the product or device in accordance with applicable laws and regulations. We have not experienced any significant inventory write-offs during the Track Record Period.

SALES AND MARKETING

We believe that ultimately, our reputation has been, and will continue to be, built upon our service quality, and that the most effective marketing channel is the spontaneous word-of-mouth referral by our satisfied clients. In the meantime, we recognize the importance of long-term investment in brand building and consumer education. Therefore, in line with other players in the industry, we made investments in promoting client awareness of our brand and our services, and expect to continue to do so in the near future.

We have designed a comprehensive marketing strategy, and utilize a combination of online and offline channels to promote our brand and our services.

- *Online marketing.* We place display advertisements in cooperation with large online channels in China, including e-commerce platforms, social media and local service platforms, such as Tmall, Douyin and Dazhong Dianping. We have also cooperated with over 15 new media partners, inviting netizens and celebrities to promote and market our services and brand through live streaming, videos, graphic press releases, and store visits. We also seek to embrace the latest trends in social-based marketing by sponsoring a variety of commercial, media and charitable events and collaborating with Ms. Liu Tao, a celebrity in China, for our traditional beauty services in order to further enhance brand awareness.
- *Offline marketing.* Our stores are concentrated in the most prosperous and prime locations. Having high client traffic and excellent operational efficiency enable us to build a large membership pool. We also place large billboard advertisements in highly visible and busy areas, such as China World Trade Center. For many key cities with large population and huge needs for beauty and health management services, we also place display advertisements in sites with high client traffic volume, such as subway stations, large office buildings, shopping complexes and cinemas. We also encourage our employees, such as client managers, to attract new clients.

With respect to online marketing, we will typically enter into a service agreement with the relevant online channels to stipulate, among others, service term, service content and payment method. During the agreed service term, each time when we place an online advertising order, we shall provide the advertisements to be published along with other detailed requests such as the form, time and target area to be published to the relevant online channels. We are generally required to make prepayments for such orders and the relevant online channels typically make settlements with us monthly based on the actual orders placed by us during the period. Our costs of online advertising are primarily calculated based on three metrics, including gross merchandise value (GMV), cost per click (CPC) and cost per mile (CPM). With respect to offline advertising, we typically engage advertising agencies to design advertisements based on the materials provided by us and display the advertisements at specific sites such as subway stations, office buildings, shopping complexes and cinemas per our requests. The offline advertising service agreement typically bears a fixed amount for an advertising campaign and requires us to make one-off payments.

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We have set up procedures to govern our advertising activities and also adopted measures to mitigate the risks relating to false advertising and efficacy-related misrepresentations. For example, we have established an internal review system in relation to the compliance of our advertising activities. Before publicizing any advertising or marketing contents, staff from our marketing or legal functions will prudently review such contents to ensure that such content (in particular, any efficacy-related information) is truthful, accurate and compliant with the applicable laws and regulations. In addition, our legal director monitors and spot-checks our marketing and advertising activities on a weekly basis in order to prevent false advertising. Once a non-compliance issue is identified, the relevant advertising and marketing contents will be removed from the relevant channels. Moreover, we from time to time consult with external advisory firms and legal counsels, to evaluate appropriateness of the advertising contents with the promulgated or proposed regulations as well as general regulatory development updates. We also regularly organize online and offline trainings for our employees to keep them informed about the relevant PRC laws relating to false advertising and efficacy-related misrepresentations.

Although some of our medical institutions have obtained the Medical Advertisement Examination Certificate (醫療廣告審查證明), since we win client trust through our traditional beauty services, and then extend to aesthetic medical services and subhealth assessment and intervention services, we did not rely on medical advertisements or other outside customer acquisition sources in our business operations. Our Directors are of the view that our current practice in connection with medical advertisement is in compliance with the regulations on medical advertising in all material aspects. As advised by our PRC Legal Advisers, our directors confirm that during the Track Record Period and up to the Latest Practicable Date we have not been subject to any fines or administrative penalties that have material adverse impact on our business operations in respective of medical advertisement.

Additionally, to strengthen the compliance management of our Company's advertising and publicity, we have formulated compliance policy for advertising and publicity, which expressly requires our marketing staff to conduct compliance reviews on all external publicity materials, printed materials, and market promotion contents so as to prevent disseminating misleading materials that promote off-label uses. We have also established strict clinic code to prevent physicians and client-facing employees from communicating about an off-label use. Moreover, our stores also offer training and guidance to our employees, prohibiting them from promoting products and services for unapproved uses, to clients who are not included in the label of the relevant product or services, or with a different dosage level or formulation. During the Track Record Period, we had not been subject to any administrative penalties due to non-compliance with off-label use.

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We also maintain procedures to monitor adverse events. We have designated employees to monitor feedback on our services and products on Dazhong Dianping (大眾點評), a local consumption platform, and other online channels. When we identified a client complaint or a negative review, we would forward it to relevant store and customer service personnel, who will address the complaint or review promptly. When a feedback or negative review is related to quality of our products, it would be forwarded to and addressed by relevant department such as our procurement team. With respect to offline monitoring, we will collect customer opinions and feedback through questionnaires after providing services. A client complaint that is related to side effects of our products and service such as post-service allergic reactions will be documented and we will conduct follow-up visit on the client. We have assembled a team of customer service staff, who are well-trained and capable of addressing customer complaints promptly and efficiently.

Based on the foregoing, our PRC Legal Advisers are of the view that our Company has measures in place to prevent off-label promotion and to effectively collect adverse events reporting related to products and services provided by us in both online and offline channels.

Our long-term success is also built upon our ability to maintain our brands and reputation, which in turn relies on providing quality services and promptly addressing our clients' needs. We have taken and will continue to take a variety of measures to protect our brands and reputation and ensure that we consistently provide quality services. For example, when we identify sales of our products in unauthorized platforms such as Taobao (淘寶) and Xianyu (閑魚), we would request the seller to take down all unauthorized products. In addition, we are committed to assembling a team of service personnel with requisite experience, qualifications and expertise, and providing training to our employees. For details, see “— Service Personnel” in this section. We also rely on standardized operation and stringent quality assurance measures to provide quality and consistent services. For details, see “— Operation Management and Quality Assurance — Operation Management” and “— Operation Management and Quality Assurance — Quality Assurance” in this section. In addition, although our franchised stores are not operated by us, we require all franchised stores to use the same operational systems and hold them to the same standards as our direct stores so that our clients can receive consistent services across our service network. We have introduced measures with respect to selection of franchisees, training and integration, performance review, ongoing quality assurance and supervision and others. For details, see “— Our Store Operation Model — Franchised Store Model” in this section. To further improve our service offerings and provide better experiences for our clients, we have designated a team of customer service personnel, who will address our clients' needs and complaints promptly. For details, see “— Client Feedback and Complaint Handling” in this section.

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AWARDS AND RECOGNITIONS

As a testimony to our achievements and the quality of our service, we have received various awards and recognitions. The following table sets forth our major awards and recognitions we received during the Track Record Period:

Year	Accreditation/Award	Accreditation organization
2019-2022	Shanghai High-Tech Enterprise Certificate (上海市高新技術企業)	Shanghai High-Tech Enterprise Certification Office (上海市高新技術企業認定辦公室)
2022	The 4th Yuntu Award — Talent Development Benchmark — Gold Award (第四屆雲圖獎人才發展標杆—金獎)	Institute of Organization and Talent Development (組織與人才發展研究院)
2022	The 4th Yuntu Award — Value Creation Benchmark — Excellence Award (第四屆雲圖獎價值創造標杆—卓越獎)	Institute of Organization and Talent Development (組織與人才發展研究院)
2022	“Go with Allergan” Brand Award (與“艾”同行品牌大獎)	Allergan Aesthetics (艾爾建美學)
2021	2021 Private Enterprise Headquarters (2021民營企業總部)	Shanghai Municipal Commission of Commerce (上海市商務委員會)
2021	Digital Skills Series Competition 2021-the 2nd Enterprise Online Learning Project Competition — Outstanding Achievement Award (2021年數字化學習技能系列大賽第二屆企業在線學習項目大賽—成效突出獎)	online-edu (在線教育資訊網)
2021	2020 Golden Tripod Cup — Shanghai Single-Use Prepaid Card Five-star Demonstration Enterprise (2020金鼎杯上海市單用途預付卡五星級示範企業)	Shanghai Single-Use Prepaid Card Association (上海單用途預付卡協會)

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Year	Accreditation/Award	Accreditation organization
2021	The 3rd Yuntu Award-Digital Learning Practice Learning Transformation Pioneer Award (第三屆雲圖獎數字化學習實踐學習轉型先鋒)	Institute of Organization and Talent Development (組織與人才發展研究院)
2019-2021	Key Enterprise Contribution Award (重點企業貢獻獎)	Shanghai Hongkou District People's Government (上海市虹口區人民政府)
2020	Top Corporation Digital Business School 2019-2020-Digital Learning Project Innovation Award (2019-2020 TOP企業數字商學院數字化學習項目創新獎)	CEIBS Digital (數字中歐)
2020	Shanghai Hair and Beauty Five Star Enterprise (上海美髮美容五星級企業)	Shanghai Hairdressing and Beauty Association 上海美髮美容行業協會
2019	New Classic Brand of the Year • Golden Tripod Prize (金鼎獎 • 年度煥新經典品牌)	China Commercial Real Estate Annual Convention (中國商業地產年會)
2019	Double-11 Premium Merchants in Life Service Industry of the Year (口碑生活服務行業雙11優質商家)	Koubei.com (口碑網)
2019	Most Growing Corporate University of the Year (年度最具成長性企業大學)	Shanghai Jiao Tong University Overseas Education College (上海交通大學海外教育學院)
2019	Best Learning Program for Chinese Companies of the Year (年度中國企業最佳學習項目)	Shanghai Jiao Tong University Overseas Education College (上海交通大學海外教育學院)
2019	Most Popular Brands for Women (最受女性歡迎品牌)	Hongdian Culture (宏點文化)

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CLIENT FEEDBACK AND COMPLAINT HANDLING

We value client feedback and complaints as an important basis for improving our services. We take each client's feedback seriously and have a standardized feedback mechanism to ensure that it is dealt with in a timely and effective manner. We have created several communication channels that our clients may provide feedback or raise complaints directly at our stores, or through our BeautyFarm mini program and complaint hotline.

In order to ensure prompt and proper handling of client complaints, we have implemented strict internal guidelines. For example, we divide complaints into crisis complaints and non-crisis complaints. Under each service, there is a standard process for handling different types of complaints. Our CRM department will ensure that all client complaints are resolved, improve the quality of complaint handling, and assess the timeliness and satisfaction rate of complaint handling.

Our CRM system is thorough, convenient and prompt. Our client service center covers a prompt response mechanism for inquiries, appointments, complaints and post-service reviews. Our store directors are responsible for promptly resolving any complaint regarding quality of services at the store level and are authorized to take remedial actions.

The table below summarizes the number of unfavorable feedback of different nature we received for the periods indicated as a percentage to the total client visits in the same period. As of the Latest Practicable Date, all of the unfavorable client feedbacks listed below had been properly addressed and satisfactorily resolved.

Nature of cases	As of December 31,			As of June 30,
	2019	2020	2021	2022
Service having not fully met the clients' expectations	<0.1%	<0.1%	<0.1%	<0.1%
Staff attitude	<0.1%	<0.1%	<0.1%	<0.1%
Hygiene problems	<0.1%	<0.1%	<0.1%	<0.1%
Post-service discomfort	<0.1%	<0.1%	<0.1%	<0.1%
Other unfavorable feedbacks	<0.1%	<0.1%	<0.1%	<0.1%
Total	<0.1%	<0.1%	<0.1%	<0.1%

We occasionally offer free services and/or partial or full refunds to settle complaints. We may also provide additional compensation to settle client complaints on a case-by-case basis. From time to time, we allow clients to request partial or full refunds due to their personal reasons (e.g. relocation abroad), and these refunds were not related to our services or complaint resolution. We have established a comprehensive refund system with systematic refund handling procedures. Upon the receipt of the refund request, we generally offer the client a request cancellation period of up to seven days, and if the client does not undertake any cancellation within such period, the client manager

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would, in a timely manner, assist the client to fill up the form of refund application and the form of membership withdrawal, followed by the submission of such request together with the two forms to our POS system. If the information included in the submitted forms is verified as accurate and authentic by the POS system, the refund request bundled with all relevant materials would be afterwards submitted to the business process management (“BPM”) system and handled by staff from the financial department of the headquarter, or otherwise be rejected.

To ensure the highest level of client satisfaction and to maintain our strong brand name, we would stringently review each refund application on a case-by-case basis, and have taken a relatively generous approach in offering the refunds regardless of whether they were unrelated to our services or compliant resolution. During the Track Record Period, we received a total of 4,093 refund applications from 3,877 individual customers, with an average refund amount per application of approximately RMB14,000. As confirmed by our Directors, no substantial refund was made to any particular customer. In 2019, 2020, 2021 and the six months ended June 30, 2022, the refunds offered by us amounted to approximately RMB10.1 million, RMB19.3 million, RMB21.9 million and RMB8.2 million, respectively, representing approximately 0.7%, 1.3%, 1.2% and 1.1% of our total revenue for the same periods, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, among all refunds, RMB1.7 million, RMB3.8 million, RMB3.0 million and RMB1.4 million were complaint-related, representing approximately 0.1%, 0.3%, 0.2% and 0.2% of our total revenue for the same periods, respectively.

We believe that the number of complaints we received and the amount of refunds and compensation incurred were insignificant, considering the size of our operation, the nature of our industry, and the relatively generous approach we took in offering such refunds and compensation. We seek to further enhance the quality of our service offerings and upkeep our rigorous service standards, to continue to maintain the client complaints we received at a low level.

MARKET AND COMPETITION

The beauty and health management service industry in China has experienced rapid growth and expected to continue to grow tremendously during the next decade. For details, see “Industry Overview” in this prospectus. According to the Frost & Sullivan, in particular, the traditional beauty service in China is highly competitive and fragmented with a large number of market participants. According to Frost & Sullivan, we are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021. We believe our principal competitive advantages are our scale, our digitalized platform capabilities, active clients, persistent and rapid growth and seasoned management team.

RESEARCH AND DEVELOPMENT

We believe research and development is critical to our future growth and our ability to remain competitive. We continuously invest in building our research and development team and improving our information technology system. Our research and development team is mainly responsible for the development, management and maintenance of our information technology system. As of June 30, 2022, we had 85 personnel in our research and development team, the majority of which are IT personnel. We have invested significant research and development resources in the development and upgrade of our digitalization capabilities to streamline our daily operational and administrative matters, such as introducing and maintaining our CRM system and BeautyFarm mini program. For more details, see “— Information Technology” in this section. We had research and development expenses of RMB9.1 million, RMB12.7 million, RMB18.0 million and RMB15.0 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, demonstrating our continued commitment in research and development activities. Our research and development expenses incurred during the Track Record Period mainly consist of employee benefits expenses for our research and development staff.

We intend to further invest in our digitalization capabilities, and for more details, see “Future Plans and Use of Proceeds” in this prospectus.

INSURANCE

During the Track Record Period and up to the Latest Practicable Date, we did not submit any material insurance claims, nor did we experience any material difficulties in renewing our insurance policies.

As of the Latest Practicable Date, we did not maintain a medical liability insurance and no entity would provide indemnity to us for professional negligence and claims. According to our PRC Legal Advisers, there is no statutory requirement for our stores to maintain such insurance coverage, and according to Frost & Sullivan, it is not a common industry practice for private beauty and health management service provider to maintain medical liability insurance. Considering the relatively low risks of beauty and health management services and our comprehensive quality control system, we believe we are able to maintain the occurrence of our medical disputes at a manageable level. We plan to satisfy the medical liability claims against us, if any, using our financial resources. As of the Latest Practicable Date, we had not experienced any material impact on our financial performance for not maintaining any medical liability insurance. However, we cannot assure that we will have sufficient insurance coverage for all liabilities, losses or damages that may arise in our business operations. For more details, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Our General Operations — Our insurance coverage may be insufficient to cover all risks involved in our business operations” in this prospectus.

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EMPLOYEES

We believe our success depends critically on our ability to attract, develop and retain our employees. As of June 30, 2022, we had a total of 3,618 full-time employees. Our services personnel and sales and marketing staff mainly work at our stores across the PRC, while our other staff mainly work in our headquarter office in Shanghai. The following table sets forth a breakdown of our full-time employees by functions as of June 30, 2022. For details of the breakdown of our staff at our stores, see “— Service Personnel” in this section.

	<u>As of June 30, 2022</u>
Service personnel	1,898
General and administrative staff ⁽¹⁾	930
Sales and marketing staff ⁽²⁾	705
Research and development staff	85
Total	<u><u>3,618</u></u>

Notes:

- (1) Mainly including management, client assistants, training personnel, human resource staff, finance staff and cleaning staff.
- (2) Mainly including client managers, health consultants and marketing personnel.

We have designated human resource personnel responsible for recruiting for stores within a specific region and each of the stores in our network directly interview their candidates, who, if selected, generally enter into employment contracts with us at the regional level. Recruiting is conducted through recruitment channels such as professional recruitment websites, internal referrals and campus recruitment. Our employees typically enter into standard employment contracts with us. Remuneration packages for our employees may comprise one or more of the following elements: base salary, performance-based bonus and discretionary bonus. We set performance targets for our employees based on their positions and departments and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals.

We did not experience significant staff turnover during the Track Record Period or any disruption to our business operations due to labor disputes. During the Track Record Period and up to the Latest Practicable Date, we had an employee representative committee. As of the Latest Practicable Date, we have complied with all statutory social insurance and housing fund obligations applicable to us under PRC laws and regulations in all material aspects and were not subject to any material fines or administrative actions due to non-compliance with any relevant regulations.

COMPLIANCE, LICENSES AND PERMITS

Our Directors, as advised by our PRC Legal Advisers, confirm that as of the Latest Practicable Date, we had complied with all relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits that we are required to obtain from relevant regulatory authorities for our operations in China, except as disclosed below.

We intend to apply for renewal of the material licenses prior to their respective expiry dates. The successful renewal of our existing licenses, permits and certificates will be subject to our fulfilment of relevant requirements. As of the Latest Practicable Date, our Directors are not aware of any reason that would cause or lead to the non-renewal of such licenses, permits and certificates. As advised by our PRC Legal Advisers, as of the Latest Practicable Date, there was no legal impediment for us to renew these licenses, permits and certificates as long as we comply with the relevant legal requirements.

Fire Safety

Compliance Status of Direct Stores

For all of our direct stores in operation as of the Latest Practicable Date, we experienced certain non-compliance incidents in relation to failure in obtaining the required as-built acceptance check on fire prevention or fire safety filing and/or fire safety inspection certificate (“**Fire Safety Inspection Approvals**”) during the Track Record Period. As of the Latest Practicable Date, we had fully rectified such non-compliance incidents. Specifically, among 191 direct stores in operation as of the Latest Practicable Date, 25, 29, 30 and 23 direct stores had not obtained the Fire Safety Inspection Approvals before the commencement of the operation during 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. As a result, during the Track Record Period, we had 37 different direct stores in total that had historically commenced operation before obtaining all required Fire Safety Inspection Approvals, and we were fined RMB30,000 during the Track Record Period for not obtaining the required Fire Safety Inspection Approvals. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the amount of revenue attributable to the above-mentioned 25, 29, 30 and 23 stores (out of these 37 different direct stores) was RMB181.0 million, RMB143.2 million, RMB185.9 million, and RMB41.6 million, which represents 12.9%, 9.5%, 10.4% and 5.7% of our total revenue for the same period, respectively. Among these 37 direct stores, there were:

- 7 direct stores for which we were not able to obtain the required Fire Safety Inspection Approvals despite of exercising reasonable best efforts seeking to obtain such approvals, because of practical difficulties outside of our control, i.e., the owner of the entire property where our direct store is located did not complete the required fire safety procedures, and the relevant local authority will not issue the Fire Safety Approvals to us on a standalone basis. Such property owners are typically well-known developers of shopping malls and we had obtained their promises that certain non-compliance status of the entire property would not result in any suspension of operation of the shopping mall or our own direct store.

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- 21 direct stores for which we were not able to obtain the required Fire Safety Inspection Approvals primarily due to the evolving and varied requirements and practices on the relevant fire safety procedures adopted by the local governmental authorities of different cities in China where our direct stores are located, which resulted in misunderstanding of the applicable local requirements and practices by certain of our employees at the local direct stores who were previously in charge of completing the relevant fire safety procedures.
- 7 direct stores for which we had submitted or were in the process of completing the applications for the required Fire Safety Approvals, but had not obtained the relevant approvals despite of exercising reasonable best efforts, before the commencement of the operation.
- 2 direct stores for which we were not able to obtain the Fire Safety Inspection Approvals due to the practical difficulties resulted from regulatory changes. The amended Fire Prevention Law became effective in April 2019, which mandated that the local housing and urban rural development authority would take over the regulatory responsibility with respect to the as-built acceptance check on fire prevention and fire safety filing. As a result of the significant regulatory changes, applications for as-built acceptance check on fire prevention and fire safety filing were not accepted for many months in 2019, and supervision and management system for fire safety in stores had not been entirely established by the relevant authorities.

In some instances, although it was not necessarily specified in the lease agreements, we were requested by the relevant property owners to open our stores by certain deadlines in order to align with their opening plans with respect to the relevant malls and/or schedules for commercial promotions. Such property owners are typically well-known developers of shopping malls. We regard these property owners as strategic and important business partners, as most of our stores are located in shopping malls. We opened the relevant stores pursuant to the deadlines as agreed with such property owners in order to maintain good relationships with them.

We took active measures to rectify the above-mentioned non-compliance incidents, and as of the Latest Practicable Date, we had fully rectified such non-compliance incidents in relation to failure in obtaining the required Fire Safety Inspection Approvals for all our direct stores in operation as of the Latest Practicable Date.

Potential Legal Consequences and Latest Status

After we had obtained all required Fire Safety Approvals for our direct stores in operation, none of the above-mentioned direct stores had been subject to any administrative penalty due to such non-compliance incidents, therefore, our PRC Legal Advisers are of the view that the risk that we would be penalized for such historical non-compliance incidents in relation to failure in obtaining the required Fire Safety Inspection Approvals is remote.

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As of the Latest Practicable Date, we had fully rectified the above-mentioned non-compliance incidents and obtained all required Fire Safety Approvals for our direct stores in operation as of the Latest Practicable Date.

Despite our failure to complete in time the necessary fire safety procedures during the Track Record Period, we nonetheless placed significant emphasis on in-store fire safety, with a goal to minimize our risk exposure to potential fire safety incidents and public safety concerns. To this end, we had taken a series of internal control measures, which include (i) engaging professional fire protection engineers to identify risks and design safeguards that aid in preventing, controlling and mitigating the effects of fires when building new stores, (ii) devising a fire safety plan with guidance on the use of building and decoration materials and electrical appliances, standard operation procedures in case of fire alarm and proper evacuation plan, (iii) installing the necessary fire safety equipment as required by applicable PRC laws and regulations, including fire extinguishers, smoke detectors and automatic water spray, and (iv) applying fire resistant construction and decoration materials, installing proper evacuation route indication signs and where applicable, proper emergency exits. With such internal control measures on fire safety in place, we passed the subsequent regular and/or random fire safety inspections by the relevant governmental authorities, without being imposed any material administrative penalties or fines, during the Track Record Period and up to the Latest Practicable Date.

Furthermore, we have enhanced our internal control measures and procedures with respect to fire safety to manage associated risks and prevent the reoccurrence of such non-compliance incidents.

- *Fire safety policies.* We have established our in-store fire safety management policies, which unify the fire safety practice at every store throughout our network. Our heightened in-store fire safety management policies provide detailed guidance on the use and maintenance of fire safety facilities. According to the heightened in-store fire safety management policies, every store shall obtain the required Fire Safety Approval before the commencement of its operation. After the commencement of store operation, we will conduct fire safety inspection every two months including but not limited to aspects related to occupancy of fire escapes, proper location, type and quantity of fire-fighting equipment, and store's fire safety training records. We will conduct periodically review on store performance in relation to fire safety and closely monitor any potential incidents in this regard.
- *Employee trainings.* We provide regular trainings on fire safety to our in-store staff and other employees, which cover key aspects of our daily operations as well as the latest updates on fire safety related rules and regulations. We also organize fire drills on a regular basis to increase our employees' fire safety awareness.

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- *Management of licenses and certificates.* We have devised our license and certificate management policies, which govern the applications for the required as-built acceptance check on fire prevention or fire safety filing or the fire safety inspections, as the case may be, among other things. When selecting our new stores going forward, we will take into account the status of the relevant fire safety approvals of the premises and obtain the required fire safety approvals as soon as practicable.
- *Designated personnel.* According to our license and certificate management policies, we designate dedicated personnel to manage licenses and certificates required for our business operation, who are responsible for managing the use of licenses and certificates, monitoring their status and renewing those near to expire in a timely manner.
- *On-going compliance consultation.* We consult our professional advisers as to latest fire safety related rules and regulations to make sure we are in compliance with these rules and regulations from time to time.

After taking into account the above rectification and enhanced internal control measures, our Directors believe that the above-mentioned non-compliance incidents would not have a material and adverse effect on our business and results of operations, considering that: (i) we had fully rectified the above-mentioned non-compliance incidents and obtained all required Fire Safety Approvals for our direct stores in operation; (ii) we did not receive any material administrative fines or penalties with respect to the aforementioned non-compliance during the Track Record Period and up to the Latest Practicable Date; (iii) as advised by our PRC Legal Advisers, the risk that we would be penalized for such historical non-compliance incidents in relation to failure in obtaining the Fire Safety Approval is remote; and (iv) we have enhanced our internal control measures and procedures as recommended by our independent internal control consultant.

For more details of the relevant risks, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Extensive Government Regulations — We may not be able to obtain, maintain or renew all the permits, licenses, certificates and other regulatory filings” in this prospectus.

Compliance Status of Franchised Stores

During the Track Record Period, certain of our franchisees failed to obtain the required Fire Safety Inspection Approvals before the commencement of operation for our franchised stores in operation as of the Latest Practicable Date. As of the Latest Practicable Date, we had fully rectified such non-compliance incidents. Among 179 franchised stores in operation as of the Latest Practicable Date, six, seven, seven and one franchised stores had not obtained the required Fire Safety Inspection Approvals before the commencement of the operation during 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. As a result, during the Track Record Period, we had 14 different franchised stores in total that had historically commenced operation before obtaining all required

Fire Safety Inspection Approvals. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the amount of revenue attributable to the above-mentioned six, seven, seven and one stores (out of these 14 different franchised stores) was RMB1.5 million, RMB2.3 million, RMB0.8 million and RMB0.2 million, which represents 0.10%, 0.15%, 0.05% and 0.03% of our total revenue for the same period, respectively. Among these 14 franchised stores, there were:

- 2 franchised stores for which we were not able to obtain the required Fire Safety Inspection Approvals despite of exercising their reasonable best efforts seeking to obtain such approvals, because of practical difficulties outside of their control, i.e., the owner of the entire property where the franchised store is located did not complete the required fire safety procedures, and the relevant local authority will not issue the fire safety approvals to the franchised store on a standalone basis.
- 2 franchised stores for which we were not able to obtain the required Fire Safety Inspection Approvals primarily due to the evolving and varied requirements and practices on the relevant fire safety procedures adopted by the local governmental authorities of different cities in China where the franchised stores are located, which resulted in misunderstanding of the applicable local requirements and practices by certain of the franchised stores' owners who were previously in charge of completing the relevant fire safety procedures.
- 5 franchised stores for which the owners of the franchised stores had submitted or were in the process of completing the applications for the required Fire Safety Approvals, but had not obtained the relevant approvals despite of exercising reasonable best efforts, before the commencement of the operation.
- 5 franchised stores for which they were not able to obtain the Fire Safety Inspection Approvals due to the practical difficulties resulted from regulatory changes. The amended Fire Prevention Law became effective in April 2019, which mandated that the local housing and urban rural development authority would take over the regulatory responsibility with respect to the as-built acceptance check on fire prevention and fire safety filing. As a result of the significant regulatory changes, applications for as-built acceptance check on fire prevention and fire safety filing were not accepted for many months in 2019, and supervision and management system for fire safety in stores had not been entirely established by the relevant authorities.

We placed significant importance on franchised stores' compliance with the relevant PRC laws and regulations, even though according to the franchise agreements (i) it is the franchisees' responsibilities to obtain all required regulatory approvals before commencing operation and (ii) we shall not be held liable for any losses arising from the franchisees' non-compliance in this regard. For details, see "— Our Store Operation Model — Franchised Store Model" in this section.

For the historical franchised stores' non-compliance incidents, we had pushed the franchised stores to obtain the Fire Safety Inspection Approvals or had terminated the

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franchise agreements with them due to their failure to compliance with the requirements stipulated in the franchised agreement, for example, failure to meet our compliance requirements in obtaining the required Fire Safety Inspection Approvals. As of the Latest Practicable Date, we, as advised by our PRC Legal Advisers, according to the relevant laws, regulations, consultation and confirmation by the competent authorities, all of our franchised stores in operation as of the Latest Practicable Date had obtained the required and necessary licenses and permits for providing traditional beauty services in China.

To better monitor our franchised stores to comply with the relevant laws or regulations going forward, we have further enhanced our franchised store's internal control measures and procedures as recommended by the independent internal control consultant with the goal to mitigate the risk exposure and public safety concerns going forward. We have devised franchising compliance policy to govern the business operation of franchisees and requires the franchisees to obtain, to the extent applicable, all required licenses and certificates in the course of their operations. We have also designated personnel to communicate with franchisees on a regular basis in relation to their business operation to prevent any safety related risk exposure. We also plan to conduct fire safety inspection on franchised stores every three months and closely monitor any potential incidents in this regard. According to the franchised agreement, we reserve the right to terminate the franchise agreement in case of any material non-compliance by a franchisee.

As of the Latest Practicable Date, all direct stores and franchised stores aforementioned had fully rectified the relevant non-compliance incidents and the relevant competent authorities had issued the Fire Safety Inspection Approvals to the relevant related stores. None of such direct stores or franchised stores had been subject to administrative penalty due to such non-compliance incidents since they had obtained the Fire Safety Inspection Approvals. Based on the foregoing, our PRC Legal Advisers are of the view that the risk that the relevant competent government authorities impose any retrospective penalty on such stores due to non-compliance incidents of Fire Safety Inspection Approvals is low. As advised by our PRC Legal Advisers, in the extreme scenario, if the relevant competent government authorities impose retrospective monetary penalty on us due to such historical non-compliant direct stores, which nevertheless are unlikely to happen, our maximum exposure for such historical fire safety related non-compliances would be a penalty in an amount of up to RMB9.7 million. As disclosed above, even if the relevant competent government authorities impose any retrospective monetary penalty due to our non-compliant franchised stores, we will not be liable for the penalty according to the franchised agreements.

LEGAL PROCEEDINGS

As a provider in the PRC, we are subject to legal proceedings, disputes and claims that arise in the ordinary course of business, which primarily included disputes on rental agreement, service contract, and clients' missing items and medical disputes. As of the Latest Practicable Date, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation. In addition, as of the Latest Practicable Date, we were not aware of any franchisees under any litigations, claims or legal proceedings relevant to our products and services.

Medical Disputes

Most of our client complaints were resolved through our prompt complaint handling. For details, see “— Client Feedback and Complaint Handling” in this section. However, they may choose to seek claims against us if initial negotiation to reach a settlement fails. A medical-related client complaint becomes a medical dispute when the client requests to resolve the complaint through the local Medical Mediation Committee for mediation or through court litigation. Our medical disputes are primarily related to complications and physical injuries that our clients suffered during or after receiving our services at our stores or otherwise complaints we receive from our clients regarding our services. As part of our risk management and internal control procedures, we have fully informed our clients of these inherent risks and obtained their consents before performance of the relevant procedures.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any medical disputes that could cause a material adverse effect on our business, financial condition or results of operations. In 2019, a customer who suffered vision impairment due to central retinal artery occlusion around two months after receiving an eyelid alteration surgery in one of our direct stores sued us for damages. Although there was no evidence showing that any misconduct during the surgery directly resulted in the vision impairment of the customer, the court ordered our direct store to pay damages of RMB109,133.6 for not informing the customer of this specific risk prior to the surgery representing approximately 30% of the total damages suffered by the customer. As of the Latest Practicable Date, we did not have any unresolved material disputes. For more details of the relevant risks, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Extensive Government Regulations — We may be subject to any litigation, legal or contractual disputes, government investigations or administrative proceedings” in this prospectus.

Trademark and Franchise Agreement Disputes

Trademark Dispute in Inner Mongolia

In January, 2021, a company in Inner Mongolia which used to be our franchisee from April, 2017 to December, 2020 as agreed in the franchise agreements (the “**Dispute Franchise Agreements**”) sued us jointly with its individual founder (the “**Plaintiffs**”) for the compensation of approximately RMB3.1 million, alleged that our Company wrongfully allowed a third party to use the trademark of “*美麗田園*” in the district of Huhehaote, while the Plaintiffs had the exclusive right to use such trademark in Huhehaote in the same period of time. The Intermediate People’s Court of Huhehaote, Inner Mongolia Autonomous Region rejected the Plaintiffs’ claims in whole. The Plaintiffs then appealed this case to the High People’s Court of Huhehaote, Inner Mongolia Autonomous Region. This case was still under review as of the Latest Practicable Date. Based on the amount claimed by the Plaintiffs in the complaint and the latest development of our unresolved dispute, we estimate that the aggregate maximum exposure in relation to such trademark dispute is approximately RMB3.0 million.

Franchise Agreement Dispute in Inner Mongolia

At the same time of the aforementioned case, our Company sued the Plaintiffs in the aforementioned case in the same court for monetary claims of approximately RMB1.2 million, including, amongst others, liquidated damages of RMB500,000. Our Company alleged that the Plaintiffs wrongfully used our trademark of “美麗田園” after the expiration of the Franchise Agreements as well as the right to use the trademark stipulated thereof. The court rejected the claim for the liquidated damages, and supported a portion of our claims for an aggregated amount of approximately RMB330,000. We appealed this case to the High People’s Court of Huhehaote, Inner Mongolia Autonomous Region. This case was concluded, with the court partially upholding our appeal as of the Latest Practicable Date.

Franchise Agreement Dispute in Hubei

In January, 2022, our Company sued an individual in Suizhou City, Hubei, who used to be our franchisee from March, 2017 to December, 2020 as agreed in our franchise agreement with the individual, in the Intermediate People’s Court of Suizhou City, Hubei, for monetary claims of approximately RMB1.1 million. Our Company claimed that the defendant in this case wrongfully used cosmetic products and offered beauty services which were out of the scope of the products and services as stipulated in the franchise agreement, and refused to perform the post-contract obligations. The trial court has rendered a verdict for this case in December 2022, partially ruling in favor of our claims. As of the Latest Practicable Date, the case was subject to appeal and the verdict has not entered into force.

In addition to the aforementioned, during the Track Record Period and up to the Latest Practicable Date, we were a party to a limited number of litigations primarily arising from disputes on rental agreement, service contract and clients’ missing items, and as of the Latest Practicable Date, we had no outstanding litigation that had material impact on our general operations. We were also involved in a limited number of labor arbitrations and mediations due to disputes on employment termination or employee salaries, and as of the Latest Practicable Date, such labor arbitrations and mediations had been properly resolved and had non-material impact on our general operations.

ENVIRONMENTAL SUSTAINABILITY AND SOCIAL RESPONSIBILITY

We are committed to building a lasting brand, and we believe our long-term success rests on our ability to make positive impacts on the environment and society. Corporate social responsibility is a core part of our business philosophy and will be pivotal to creating sustainable value for our Shareholders. Accordingly, we have adopted a policy on environmental, social and corporate governance responsibilities (the “**ESG Policy**”) in accordance with the Listing Rules, which sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations.

Under our ESG Policy, we aim to build a sustainable community with our employees, clients and business partners by supporting local initiatives that aim to create effective and lasting benefits to the local community through various initiatives that may include corporate philanthropy, establishing community partnerships, and mobilizing

our employees to participate in volunteer work. Under the oversight of our management, we actively identify and monitor actual and potential impact of environmental, social and climate-related risks on our business, strategy and financial performance, and incorporate considerations of these issues into our business, strategic and financial planning. Mr. Lian, our chief executive officer, also assesses the likelihood of ESG related risks and the estimated magnitude of any potential impact. At the same time, our relevant business units are responsible for promoting and implementing various sustainable development measures.

Our Board of Directors has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks at least once a year. Our Board of Directors may assess or engage independent third party(ies) to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

Materiality Assessment

The materiality assessment was divided into the following three main stages:

- Identify potential material ESG topics which may affect our Group’s business or stakeholders, based on the actual development of our Group and characteristics of the industry;
- Invite stakeholders to participate in a questionnaire survey to express their concerns and opinions regarding various potential material topics; and
- Analyze the questionnaires collected and priorities potential material topics.

We have been maintaining a close relationship with the stakeholders of our business as we believe they play a crucial role in maintaining business sustainability. Key stakeholders of our business include our investors, customers, employees and suppliers. Through continuous communication, we will collect their views and opinions which help us to identify ESG-related risks and formulate the sustainability framework to address those risks. We will also maintain an open dialogue with the stakeholders (including management, employees, customers, suppliers and investors) to receive their comments and understand their expectations on what the ESG issues matter most via meetings, interviews and discussions.

Process of ESG Risks Identification

We will adopt the following approaches and strategies to evaluate priorities and manage material ESG-related issues:

- (a) Identification — industry benchmarking
 - Relevant ESG areas are identified through the review of local and international industry ESG reports.

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- The materiality of each ESG area will be determined based on the importance of each ESG area to us through internal discussion with our management.
- (b) Prioritization — stakeholder engagement
- We will discuss with key stakeholders on key ESG area identified in step (a) to ensure that all the key aspects are covered.
- (c) Validation — determining material issues
- Based on the discussion with key stakeholders and internal discussion among our management, our management will ensure that all the key and material ESG areas, which are important to our business development, are reported and complied with relevant environmental laws and regulations.

During the Track Record Period, we have taken the following environmental sustainability and social responsibility initiatives:

Environmental Protection

We are subject to various laws and regulations in the PRC in relation to environmental matters and the disposal of medical waste, which includes medical sanitation, reduction of occupational hazards in stores, prevention of medical accidents, disease control, disposal of medical waste and discharge of wastewater and pollutants. For more details, see “Regulatory Overview” in this prospectus.

We are committed to complying with applicable PRC regulatory requirements, preventing and reducing various hazards and risks associated with our operations, and ensuring the health and safety of the clients and employees of our stores and surrounding communities. Our operations do not involve heavy use of harmful or hazardous materials. During our provision of beauty and health management services to our clients, we disposed various medical wastes and substances, such as used disposable medical supplies and devices including needles, cotton pads and other wound dressings, from various procedures in the operation of our medical institutions. As advised by our PRC Legal Advisers, there is no regulatory limit on the amount of waste disposal for both of our medical institutions and non-medical institutions under the PRC laws. We have engaged qualified waste management companies for each of our medical institutions. Such waste management companies are permitted by local governmental authorities to handle at least approximately 0.2 million tons of medical wastes in total per year, while the amount of medical wastes produced by our medical institutions and disposed by these waste management companies are far below their permitted level. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the amount of medical wastes disposed by our 18 medical institutions was approximately 5.0 tons, 7.4 tons, 10.1 tons and 5.4 tons, respectively. During the same periods, our total cost of medical waste disposal amounted to approximately RMB37.4 thousand, RMB62.4

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thousand, RMB71.0 thousand and RMB45.9 thousand, respectively. Our cost of medical waste disposal for the six months ended June 30, 2022 exceeded the cost in 2019, primarily due to the increase in the amount of medical waste we discharged. Such increase was mainly because our business expanded and more used medical disposables were generated during our operation since we took strict precautions in response to COVID-19.

In compliance with the relevant environmental laws and regulations, we have adopted stringent internal control measures to ensure the proper disposal and processing of medical wastes and substances. For example, we have adopted the guidelines to set our detailed requirements and procedures for disposing and processing medical wastes, including classifying medical wastes according to the relevant PRC laws and regulations and engaging qualified third parties to collect medical wastes from our stores. To be specific, the medical wastes generated from our stores are collectively delivered to qualified waste management companies verified by local government authorities for delivery and disposal by type, and generally we would ensure that such waste will not be stored for more than 48 hours in our stores, for the purpose of effectively preventing and controlling the possibilities of damage to the environment. We have also adopted the guidelines to prepare our staff for the potential emergency situations and plan to regularly designate staff from legal functions to monitor the implementation of the guidelines in respect of medical waste disposal from time to time. We have contracted with waste management companies for the collection and processing of our medical wastes, and timely paid medical waste processing fees to our waste management companies during the Track Record Period and up to the Latest Practicable Date. Going forward, we expect to continue monitoring the generation of non-medical wastes during our provision of beauty and health management services to our clients. For example, we intend to set up metrics and targets to assess and manage non-medical waste disposal, to engage third-party agencies to monitor our production and disposal of non-medical wastes and issue monitoring reports every month, and to designate more responsible personnel to monitor non-medical waste disposed by our stores on a monthly basis.

To ensure the proper implementation of our policies on environmental protection, we will conduct inspections over each of our stores regularly and provide trainings to our staff from time to time to update them with the relevant internal standards and procedures, as well as the relevant environmental laws and regulations, to ensure their compliance with the same. We have also adopted policies regarding the efficient use of water and electricity to reduce the waste of resources.

We believe that we are not susceptible to climate change, and we have not experienced extreme weather in the areas where we conduct our operations. As of the Latest Practicable Date, we had not experienced any material impact on our business operations or financial performance as a result of climate change or extreme weather conditions.

For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, our total costs of compliance with applicable environmental laws and regulations were insignificant, which amounted to approximately RMB0.3 million, RMB0.2 million, RMB0.2 million and RMB0.2 million, respectively. In the future, we expect that the annual cost of compliance with health, safety and environmental protection rules and regulations

may increase in line with the growth and expansion of our business. However, our Directors do not expect any material increase in the cost of compliance with applicable health, safety and environmental protection rules and regulations in the near future. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines, penalties or other legal actions by any government agencies resulting from any material non-compliance with any environmental protection laws. We believe that we are in compliance in all material respects with applicable environmental regulations in the PRC.

Going forward, to better implementing and evaluating ESG policies, we expect to implement environmental protection measures to monitor and reduce the medical waste generated during our provision of services. For example, we intend to conduct inspections over each of our stores on a monthly basis and provide regular trainings to our staff to improve their knowledge of reducing medical waste. We expect to strengthen the monitoring and implementation of guidelines related to the handling, use, storage, treatment and disposal of medical waste. For example, we plan to conduct the independent evaluation periodically by our Board on the adequacy and effectiveness of the guidelines as well as the implementation of these guidelines through the internal review function. We also plan to increase training on these guidelines and procedures as part of our employee-training program to ensure such procedures are strictly enforced. For example, we plan to invite ESG experts to hold regular lectures or seminars regarding ESG policies semi-annually and organize training courses to improve ESG awareness of our staff.

Resource Management

Our energy consumption is mainly derived from electricity consumption of our stores, and offices. Our electricity consumption is also the main source of our indirect greenhouse gas emissions. We also use water during our daily operations. In 2021 and the six months ended June 30, 2022, our total electricity consumption amounted to approximately 8.5 million kWh and 3.7 million kWh, respectively, and our total water consumption amounted to approximately 166.8 thousand tons and 70.4 thousand tons, respectively.

We expect that our total electricity and water consumption to increase during the next three years as we will expand our store network and the total client visits are expected to increase. We will continue to increase energy and water efficiency in our operations to fulfill our environmental and social responsibility and we intend to reduce energy and water consumption per client visit during the next three years. For example, we will continue to consolidate inventory orders from our stores in Beijing and Shanghai and deliver inventory on a weekly basis to reduce shipping frequencies and will continue to use recyclable shipping boxes, which could reduce energy consumptions and reduce unnecessary waste. We plan to foster a paperless working environment and promote utilization of nature light and ventilation. We also strive to foster energy and water conservation culture in our Group such as raising awareness of water and energy conservation through employee trainings and encouraging employees to turn off lights and computers during off-business hours. We also intend to frequently promote knowledge of low-carbon development and resource conservation to our employees.

Metrics and Targets

Through devising our environmental policies, we have established and tracked a set of metrics and targets in relation to environmental protection in general operations, waste disposal and power usage specifically.

- **Power usage:** we evaluate our power usage level using the metric of average annual power usage per store. As disclosed above of the total electricity consumption historically, we intend to further reduce the level of our average annual power usage per store over the next three years by 1%. We will continue to optimize our store design and apply innovative technologies and systems to improve energy efficiency.
- **Water usage:** due to our business nature, we do not consume a large amount of water in our daily operation, but we intend to reduce the level of our average annual water usage per store over the next three years by 1%. We plan to keep monitoring water consumption level and upgrade our wastewater processing capability to increase our usage of recycled water if necessary. We expect to continue to explore potential energy-saving solutions within our production process as well as improve the efficiency of energy and resource usage. Further, we expect to improve our employees' awareness of environmental protection and resource conservation through continuous training efforts.

Social Responsibility

We view corporate social responsibility as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders and embrace diversity and public interests. For example, we actively assumed social responsibilities by initiating charity events. We have been cooperating with the government to help the children support the "BeautyFarm Primary School" in Guizhou to provide a safe and comfortable study environment for the children. Moreover, during the COVID-19 period, we set an example for our industry by quickly responding to the situation and providing disinfection supplies to our clients and employees. We also promised all employees no layoffs and no pay cuts in 2020, while our management team took their own pay cuts. This protected our employees, rallied our team, and enabled our operations to quickly recover during the pandemic.

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We stick to integrity, safety, and transparency for providing services, which is enforced through a variety of means, for details, see “— Operation Management and Quality Assurance — Quality Assurance” in this section. Further, in order to avoid unscrupulous sales practices, we have established a series of control measures such as preventing our staff from overselling and adopting reasonable refund policies. We do not provide sales on credit or any kind of loans to our clients in respect of the service fees in order to avoid the sale of excessive and unnecessary services to clients. We provide trainings to our sales and marketing team from to time in relation to proper sales practices. We have also established systematic and efficient client feedback management system and client complaints management system to handle any clients’ feedback and complaints in relation to our services. For details, see “— Client Feedback and Complaint Handling” in this section. We also have policies in place dedicated to protecting the information and privacy of our clients. For details, see “— Data Privacy and Protection” in this section.

INTELLECTUAL PROPERTY

We believe that intellectual property rights are critical to our continued success. We primarily rely on the applicable laws and regulations on trademarks, patents, trade secrets, and confidentiality agreements to protect our intellectual property rights. We have registered or applied for registration of certain trademarks, patents and domain names in the PRC and Hong Kong relating to the names and logos of our stores. As of the Latest Practicable Date, we had (i) 276 trademarks registered in the PRC and four trademarks registered in Hong Kong; (ii) nine patents registered in the PRC and five pending patent applications in the PRC; (iii) 37 registered software copyrights and six registered artwork copyrights in the PRC; and (iv) one registered domain names in the PRC. As we direct more resources towards research and development, we will continue to patent new techniques, technologies and other innovations.

During the Track Record Period and up to the Latest Practicable Date, there was no material infringement of third-party intellectual property rights by our Group. As of the Latest Practicable Date, we were not aware of any material infringement or dispute regarding our intellectual property rights. We believe that we have taken reasonable measures to prevent infringement of our intellectual property rights. For more details, see “B. Further Information About the Business of the Company — 2. Our Material Intellectual Property Rights” in Appendix V to this prospectus.

DATA PRIVACY AND PROTECTION

During our ordinary course of business, we collect data of our clients in relation to the services we provide, primarily including name, gender, contact information, basic health information, consultation and treatment records, and other service-related records. We collect such information primarily for communications, service planning and delivery of our services and products, which are processed in accordance with the customers' consent, or necessary for providing services to our customers, or necessary for us to fulfill statutory obligations. We control and keep such information and data, and generally store such personal information and data on our physical servers for the minimum time necessary for the purpose of their processing and in compliance with relevant laws and regulations.

We have formulated strict policies such as *BeautyFarm Client Information Security Protection and Management Policy* (《美麗田園客戶信息安全保護管理規定》) to govern the collection, handling, storage, retrieval, and access of our client's personal data and records. Our stores use secured information technology systems to manage our clients' personal information and records. Access to such systems is subject to clearance control and authorization. We take safety precautions in online data storage and processing. We secure the communications over our network and file encryption technology that prevents unauthorized view or modification. Our information technology network is configured with multiple layers of protection to secure our databases and servers. We have also implemented a variety of protocols and procedures, such as regular system checks, password policy, server access logging, network access authentication, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our data assets and prevent unauthorized access to our network.

In addition, to protect client data against unauthorized physical access, files that include such data are stored in lockable cabinets, which can only be accessed by designated personnel of our stores. For service-related records of our clients that are kept manually, we have designated personnel at our stores responsible for the safekeeping of such service-related records.

Furthermore, we enter into confidentiality agreements with our employees who have access to any aforementioned privacy information. The confidentiality agreements provide that, among others, these employees are legally obligated not to misuse the confidential information while in office, to surrender all confidential information in possession while resigning, and to retain their confidential obligations after they leave office. We also implement a series of measures to ensure our employees' compliance with our data security measures. For instance, we require new hires to receive onboarding training on data security and employees to receive on-the-job training regularly to reinforce relevant data security policies. Employees shall acknowledge to us that they understand and will follow our data security policies.

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any breach of confidential client information or any other client information-related incidents which could cause a material adverse effect on our business, financial condition or results of operations. For more details of the relevant risks, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Extensive Government Regulations — We could be exposed to risks related to our management of customers’ data” in this prospectus.

The laws and regulations of cybersecurity and data protection are relatively new and evolving and their interpretation and enforcement involve significant uncertainty. Our PRC Legal Adviser as to PRC data compliance law does not foresee any material impediment for us to comply with relevant laws and regulations in all material aspects.

PROPERTIES

The Property Valuation Report from JLL, an independent property valuer, set out in Appendix IV of this prospectus, sets out details of our selective property interests as of September 30, 2022. JLL valued these property interests at an amount of RMB92.7 million as of September 30, 2022. Except for the property interests set forth in the Property Valuation Report from JLL, no other property interests are used for property activities as defined under Rule 5.01 of the Listing Rules. No single property interest that forms part of our non-property activities had a carrying amount representing 15% or more of our total assets as of June 30, 2022.

Owned Properties

As of the Latest Practicable Date, we owned land use rights of a parcel of land with a gross site area of 20,289.0 sq.m. and 11 properties with a total gross floor area of approximately 6,652.3 sq.m. in China mainly for dormitories and medical purposes.

Leased Properties

As of the Latest Practicable Date, we leased 303 properties in the PRC with an aggregate GFA of approximately 84,103.85 sq.m. Our leased properties are primarily used as premises for our stores, office space, employee dormitories and warehouses.

Lease Agreement Registrations

As of the Latest Practicable Date, lease agreements for 257 leased properties of us in China had not been registered with the relevant PRC governmental authorities due to the difficulties of procuring the relevant lessor’s cooperation to register such leases. Such non-registration of leases was primarily due to lessors’ failure in preparing sufficient documents necessary for the registration despite our repeated requests. However, the non-registration of the leases did not result in any discounts on the rents and did not negatively affect the safety conditions of the properties we leased, based on our market studies and previous experience.

As advised by our PRC Legal Advisers, according to the PRC Civil Code, failure to register such lease agreements with the relevant PRC government authorities does not affect the validity and enforceability of the relevant lease agreements. However, the relevant PRC government authorities may impose a fine on our lessors or us ranging from RMB1,000 to RMB10,000 for each unregistered lease.

Our Directors believe that the non-registrations of leases described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) no penalty has been imposed on us for our failure to register and file the relevant lease agreements historically; (ii) the maximum potential penalty for each non-registration of the leases is RMB10,000, so even if we were penalized by the relevant PRC government authorities, the penalties would not, individually or in the aggregate, materially and adversely affect our business or financial position; and (iii) as advised by our PRC Legal Advisers, if the lease registration could be completed within a reasonable time from the date of application or the prescribed time limit ordered by the competent governmental authorities, the risk of governmental authorities imposing a fine on us with respect to these leased properties is remote.

We will continue to liaise with our landlords and try to register all the relevant leases. We have and will continue to request our lessors to provide necessary documentations and to cooperate with us in completing the registration of the lease agreements. We have designated personnel responsible for self-inspections from time to time on whether the lease agreements are properly registered, and if they identify any non-registered lease agreement, they will require the responsible employees at our local stores to follow-up on the registration status. The designated staff are required to keep records of the lease registration status.

Risk of Lease Termination

As of the Latest Practicable Date, the actual usage of six leased properties was inconsistent with the usage set out in their title certificates or relevant authorization documents. These six leased properties are used for the operation of seven direct stores. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the amount of revenue attributable to these seven stores was RMB14.7 million, RMB13.8 million, RMB46.8 million (including revenue of RMB31.3 million from the Remaining Three Stores since their relocations in the second half of 2021) and RMB41.2 million (including revenue of RMB34.7 from the Remaining Three Stores in the corresponding period), representing 1.0%, 0.9%, 2.6% and 5.6% of our total revenue for the same period, respectively.

In addition, the lessors of 48 leased properties had not provided us with relevant title ownership certificates to demonstrate their ownership in spite of our repeated requests, and among the 48 leased properties, 13 leased properties are used for the operation of our direct stores, and the rest are used for offices and employee dormitories. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the amount of revenue attributable to these 13 stores was RMB234.4 million, RMB272.2 million, RMB313.6 million and RMB132.2 million, representing 16.7%, 18.1%, 17.6% and 18.0% of our total revenue for the same period, respectively.

BUSINESS

As advised by our PRC Legal Advisers, it is the lessors' responsibility to obtain the appropriate title certificates and ensure the actual usage is consistent with the approved usage, and we, as the tenant, will not be subject to any administrative punishment or penalties because of the lessors' failure to obtain or to provide the relevant title ownership certificates. We, however, face uncertainties of our leases if third party claims or challenges the lease. In the worst scenario, if the lessors are found out to not have the requisite rights to lease these properties, our relevant lease agreements with them may be deemed invalid, and as a result we may be required to vacate these leased properties.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any safety issues or disputes or termination of lease with respect to these leased properties as described above. Our Directors believe that these situation described above will not materially affect our business and results of operation, on the grounds that: (i) during the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, our leases with respect to the abovementioned leased properties had never been challenged by any third parties; (ii) these leased properties are geographically dispersed across China, so we believe it is unlikely that we would be subject to claims of rights from various third parties at the same time; (iii) there are multiple site candidates close to these leased properties at substantially the same rental prices, and we believe we would be able to relocate to different sites relatively easily should we be required to do so. We believe that if necessary, we would be able to relocate one store to a different site relatively easily, without incurring any significant additional costs, and the relocation could be completed within six months, depending on the type of store and location of the store. The operation of our stores would not be affected by such relocation so we do not expect to experience any material loss of revenue because of the relocation. Therefore, the impact on relocation would not have a material impact on our operations. Even if during the relocation period, thanks to our extensive body and skin care store network, clients are easily accessible to our services from other stores nearby; and (iv) we have enhanced our internal control measures and procedures to prevent the leasing of properties without confirming lessors' titles going forward.

We will continue to use commercially reasonable efforts to request our lessors to provide us with the relevant title ownership certificates, and to identify suitable locations to relocate the affected stores. We have enhanced our internal control measures in connection with property rentals. We will require all of our lessors to provide the valid title certificates and other necessary documentation before we enter into lease agreements with them. Before entering into any new lease agreements, we will carefully review the relevant documents provided by the lessors, to ensure that we will not inadvertently lease any property without confirming lessors' titles. All the lease agreements as well as the relevant documents provided by the lessors need to be approved by our legal department.

For more details of the relevant risks, see "Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Extensive Government Regulations — Our leased property interests may be defective and our right to lease or use the properties may be challenged" and "Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Extensive Government Regulations — Some of the lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law" in this prospectus.

INTERNAL CONTROL AND RISK MANAGEMENT

We are exposed to various risks in our operations and have established a risk management system with relevant policies and procedures that we believe are appropriate for our business operations. For details of the major risks identified by our management, see “Risk Factors” in this prospectus. Our policies and procedures relate to managing our store operations, procurement and service safety and quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Global Offering, we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an audit committee to review and supervise our financial reporting process and internal control system. Our audit committee consists of three members, being Mr. LIU Teng (劉騰), Mr. FAN Mingchao (范銘超) and Ms. LI Fangyu (李方雨), with Mr. LIU Teng (劉騰) being the chairperson of the committee. For details of the qualifications and experience of these committee members, see “Directors and Senior Management” in this prospectus;
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure; and
- continue to organize training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong.

In preparation for the Listing, we have engaged an independent third party consultant (the “**Internal Control Consultant**”) to perform a review over selected areas of our internal controls over financial reporting in November 2021 (the “**Internal Control Review**”). The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Joint Sponsors and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity-level controls and business process level controls, including store management, revenue and receivables, purchases and payables, inventory and logistics, payroll, fixed assets and intellectual property, treasury, insurance, financial reporting, tax, contract and general controls of information technology.

The Internal Control Consultant performed the follow-up reviews in March 2022 to review the status of the management actions taken by the Group to address the findings of the Internal Control Review (the “**Follow-up Review**”). The Internal Control Consultant did not have any further recommendation in the Follow-up Review. The Internal Controls Review and the Follow-up Review were conducted based on information provided by the Group and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.

BUSINESS

Following the advice from the Internal Control Consultant, we have adopted and implemented a series of new internal control policies as well as measures and procedures designed to provide further assurance on effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Going forward, we will continue to regularly review and improve these internal control policies, measures and procedures. To further enhance our corporate governance practices and the effectiveness of our internal control procedures, we have adopted the following steps and measures:

- with respect to regulatory certificate and approval management, we have invited Shanghai Fire Protection Association Promotion Service team (上海市消防協會宣傳服務隊) to provide training to our employees and to raise their awareness of fire safety. We have also adopted a set of internal controls such as Certificate Management Methods (《證照管理辦法》) formalizing procedures related to certificate and approval application, amendment and cancellation, and National Store Certificates Validity Record (《全國門店證照時效台賬》) to monitor the validity of necessary certificates and approvals. We will also require newly signed lease agreements to be properly registered and will make plans to register lease agreements not yet registered. In addition, we have adopted a number of enhanced internal control measures to prevent the recurrence of similar non-compliances in relation to fire safety, including (i) regular compliance review from senior management, including Mr. Li, our chairman of our Board, Mr. Lian, our chief executive officer, and Ms. Zhou, our chief financial officer, on internal control and compliance measures and (ii) establishing a compliance management inspection team comprising staff from our legal and compliance department as well as audit department, which will assist our senior management in monitoring and supervising the rectification of the identified non-compliances, and in preventing the recurrence of similar non-compliances; and (iii) arranging our Directors, officers and other employees to attend training sessions conducted by our PRC Legal Advisers on applicable laws, regulations and rules in relation to our operation.
- with respect to confidential information management, our employee handbook has formalized information security and confidentiality policies and we enter confidentiality agreement with our employees. Before entering an agreement with a third-party, we will identify potential risk of information security and our legal development will review agreement with third party to ensure that confidentiality clause is included in. We have further adopted Information Security Protection and Management Policy (《信息安全保護管理規定》) formalizing procedures relating to information security and confidentiality management, including creating a designated department, providing guidance on scope and level of confidential information and on how to deal with leak of confidential information, and creating a contingency plan in case of information security incident. We will grant employees different level of permissions to access information depending on their responsibilities and frozen accounts of employees who are no longer with us and review employees' permissions on a semi-annual basis.

BUSINESS

- with respect to medical disputes, we require all our departments and staff to follow our internal procedures on handling medical disputes. Any material incident which has caused or may cause injury or any other serious consequences shall immediately be reported to senior managements, which shall investigate the incidents. Our store director is responsible for preserving relevant evidence and offering our clients and/or their families an explanation, and try to solve the disputes amicably;
- with respect to anti-corruption, we have specific policies and procedures in place. Our management and audit committee oversees the design and implementation of anti-corruption policies and procedures. Related policies are set forth in the employee handbook and code of conduct. We have a zero tolerance policy towards accepting any form of bribes. We have also established a whistleblower program, dedicated hotline and email address to receive named or anonymous reports of corruption charges and stringent investigation protocols. Any employee found in breach of the relevant anti-corruption policies faces termination of employment; and
- with respect to store management, our management is in charge of deciding the opening of new stores and making operation strategy. We also have a strategy development department, which is responsible for implementation of the operation strategy. The strategy development department will screen potential site locations and create a store opening plan. If such plan is approved by our management, the strategy development department will request requisite license and certificates from our potential lessor before we enter into a lease agreement with the lessor, and the lease agreement should be reviewed by our legal department. The strategy development department also ensures the new store shall acquire requisite certificates and approvals before opening. We also have polices in place managing our franchised stores. For example, we require that the franchised store shall possess requisite certificates and approvals.

Our Directors are of the view that our enhanced internal control system is adequate and effective for our current operations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, the Controlling Shareholders are interested in 57,490,000 Shares (representing approximately 55.77% of the total issued share capital of our Company). Mr. Li is interested in approximately 18,780,000 Shares through LIY Holdings and LIY Management. Ms. Li is the daughter of Mr. Li and is interested in 21,200,000 Shares through LIFY Management. Mr. Lian is interested in 17,510,000 Shares through Meiyao Holdings.

Each of Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun and Yuan Huimin have entered into a concert agreement on March 10, 2022 to confirm that they have agreed to and shall procure Shares controlled by corporation or trust under their control to act in concert in the management, decision-making and all major decisions of our Group since January 1, 2019. As of the date of this prospectus, our Controlling Shareholders are entitled to exercise voting rights of approximately 55.77% of the total issued share capital of our Company. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), they will be entitled to exercise voting rights of approximately 49.87%. Therefore, Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun, Yuan Huimin, LIY Holdings, LYBF Management Holdings Limited, LIY Management, LIFY Holdings, LFYE Management Holdings Limited, LIFY Management, Meiyao Holdings, LIANSY Holdings Limited, NIUGF Holdings Limited, LIANSY Family Holdings Limited, CUIYJ Holdings Limited, CUIYJ Management Holdings Limited, YUANHM Holdings Limited, and YUANHM Management Holdings Limited are considered as our Controlling Shareholders upon Listing.

DELINEATION OF BUSINESS

Business of Our Group

We are a beauty and health management service provider offering traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services to serve our clients' health and beauty desire (the “**Core Business**”).

Excluded Business — Hainan Qiyao

As of the Latest Practicable Date, Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun and Yuan Huimin are our Controlling Shareholders and they are interested in the business of Hainan Qiyao, a medical services provider based in Bo'ao, Hainan province. In addition, Mr. GENG Jiaqi, our non-executive Director also serves as a supervisor of Hainan Qiyao. It operates a hospital primarily focused on the provision of frontier medical services with a focus on research, development and application of innovative technologies. In order to advance its capabilities in the technologies and as part of its business focus to offer its customers with frontier technologies and innovative products, Hainan Qiyao has made significant commitments on research and development, including cooperation with institutions including B. Braun, a global healthcare company and other major reputable research institutions. Our Directors confirm that to the best of their knowledge after due enquiry, as of the Latest Practicable Date, Hainan Qiyao did not experience any material medical incidents.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Hainan Qiyuan is held as to 99.999% by Shanghai Qishi and 0.001% by Mr. Li. Shanghai Qishi is a limited partnership whose general partner is Shanghai Bozhichuang Commercial Management Partnership (Limited Partnership) (上海博之創商業管理合夥企業(有限合夥)), a partnership whose interest and control rest with Mr. Li and Ms. Li. The other limited partners of Shanghai Qishi include Henan Meiyao, Shanghai Youyi, Shanghai Bozhi Commercial Management Partnership (Limited Partnership) (上海博至商業管理合夥企業(有限合夥)), a limited partnership with Mr. Li serving as its general partner), Maynos (Hong Kong) Limited and Tianjin Rongzhu Tianyuan Enterprise Management Partnership (Limited Partnership) (天津鎔鑄田園企業管理合夥企業(有限合夥)), “**Tianjin Rongzhu**”). The general partner of Tianjin Rongzhu is Shanghai Panxin Yanzhao Investment Consulting Co., Ltd. (上海磐信言釗投資諮詢有限公司, a company that is controlled by Beijing Xinyu) and Beijing Xinyu is its sole limited partner. Hainan Qiyuan is managed by its management team lead by ZHU Yi (朱一), its sole director and chief executive officer. ZHU Yi was a former employee of the Group working for Hainan Qiyuan and has ceased to be an employee of the Group upon the Group’s disposal of Hainan Qiyuan in December 2020. The management team of Hainan Qiyuan is independent from and not employed by the Group. Our executive Directors does not hold any directorship or management role in Hainan Qiyuan.

Prior to December 2020, Hainan Qiyuan was part of our Group and operated the hospital by focusing on offering its customers with frontier technologies and innovative products. Our Group disposed Hainan Qiyuan to its current shareholders, Shanghai Qishi and Mr. Li for a total consideration of RMB20 million, such consideration was determined based on arm’s length negotiation and based on a valuation report prepared by a valuer who is an Independent Third Party. We have disposed the business to our then Shareholders in order to focus on and engage in our Core Business. In light of the innovative nature of Hainan Qiyuan’s operations involving licensed drugs, licensed medical devices and licensed medical research and given its emphasis on innovative and frontier research and development, which are different from the rest of the Group, the Group has determined that it is in the Group’s interest as a whole to dispose of the business such that the Group’s management’s attention and effort can be dedicated to our Core Business. For details on the historical transaction amount between the Group and Hainan Qiyuan, please refer to the section headed “Connected Transaction” in this prospectus. Hainan Qiyuan has not generated any income from any overlapping services with the Company, including but not limited to traditional beauty services, aesthetic medical services, and subhealth assessment and intervention services which directly or indirectly competes with the Group since the Group’s disposal in December 2020 and will not do so in the future.

The cooperation arrangement between Hainan Qiyuan and the Group stems from the Group’s objective of serving its customers’ needs, including through recommending and facilitating existing customers’ demand for services that are not offered by the Group. For the year ended December 31, 2021, with reference to the management account provided by Hainan Qiyuan, its revenue attributable from customers referred by the Group amount to approximately 35% of Hainan Qiyuan’s total revenue for the year.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Group's role in the cooperation arrangement mainly includes facilitative services, such as preliminary communication and consultation on service offerings, coordination of travel and accommodation arrangements when visiting Hainan Qiyian, liaison between the customers and Hainan Qiyian as well as post-treatment consultation services. Pursuant to the Cooperation Agreement as detailed in the section headed "Connected Transactions", Hainan Qiyian will not be engaged in also diagnostic or detection services offered by the Group (including functional assessment and sub-health assessment services for overall health conditions, chronic disease, mental health screening and electrical impedance analysis on the digestive system). When Hainan Qiyian's patients is required to undertake such services, it will exclusively refer such business to the Group, and the Group will directly engage the patients to provide the relevant diagnostic services.

Clear Delineation of Business

The business of Hainan Qiyian can be delineated from the Group's Core Business in terms of business strategy, service offerings and technology and treatment deployed. The table below sets forth the major differences between the operations of Hainan Qiyian and the Group:

Hainan Qiyian

Business strategy

Hainan Qiyian is committed to growth through sourcing innovating medical treatments and drugs, expansion of hospital services targeting chronic diseases and investments in research and development (R&D). It has undertaken multiple R&D initiatives and intends to continue making significant investments in R&D in order to develop innovative and frontier treatments including cell therapies of which requires specific qualification and technical capability that the Group as a beauty and health management service provider does not possess.

Hainan Qiyian is working on multiple ongoing R&D projects and has also entered into R&D agreements with other reputable hospitals including Shanghai East Hospital (上海市東方醫院).

The Group

We are a beauty and health management service provider offering traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services to serve our clients' health and beauty desire. The Group's plans for growth leverage on its extensive store coverage, brand awareness, large client base, continuous investment in IT systems and standardized services across our stores and location. The Group does not leverage on medical R&D as a path for future development, has not made significant commitments on medical R&D and does not possess such hardware infrastructure (e.g. certified laboratory).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Service offering

Hainan Qiyan operates a specialized hospital which is licensed and qualified to offer 10 types of medical services leveraging on innovative technologies such as cell therapies, including (i) gynecology treatments (including HPV infection and urinary incontinence treatments) (ii) surgical treatments (including skeletal and joint injuries, digestive system diseases), (iii) internal medicine services (including hematology, endocrinology, rheumatology and immunology), and (iv) oncology services. Hainan Qiyan has not generated any income from traditional beauty services, aesthetic medical services, and subhealth assessment and intervention services which directly or indirectly compete with the Group since the Group's disposal in December 2020. Hainan Qiyan will also exclusively refer its patients requiring diagnostic and detection service which are covered by services offered by the Group (the "**Group Diagnostic Services**") to the Group as further detailed in the section headed "Connected Transactions", Hainan Qiyan will no longer provide any Group Diagnostic Services, which will be referred to the Group and the Group will directly engage the relevant patients to provide such Group Diagnostic Services and Hainan Qiyan will only continue to provide other diagnostic services that fall outside of the Group's diagnostic service offerings and are carried out as part of Hainan Qiyan's medical treatment process for its patients.

The Group does not operate hospital and is a beauty and health management service provider principally offering traditional beauty services, subhealth assessment and intervention services and aesthetic medical services. The Group's services are predominantly non-invasive and caters to the day-to-day beauty and health needs of the Group's customers. The Group currently operates a small number of stores holding Medical Institution Practicing License. These institutions are medical clinics and are typically only qualified to offer services covered in our aesthetic medical services and do not offer the broad range of medical services offered by Hainan Qiyan's hospital.

While the Group offers certain subhealth assessment and intervention services under our Neology brand, these are primarily focused on clients' subhealth and overall health conditions on aging related health issues, the treatments offered under our Neology brand are generally focused on relieving symptoms and conditions and do not involve treatments of more significant illness or sickness that are covered by services offered by Hainan Qiyan.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Technology and treatment deployed

As a hospital operator, Hainan Qiyan is engaged in medical research and development activities. It owns, operates and utilizes certified laboratories to facilitate its R&D efforts. Additionally, Hainan Qiyan has obtained approval and has implemented the use of novel foreign registered medication (which cannot be prescribed in other regions in the PRC) for various treatments, including the use of blood cholesterol regulating drug inclisiran developed by a reputable pharmaceutical company and approved by the FDA.

Hainan Qiyan also plans to seek application for other foreign registered medications, including a metabolic arthritis drug, an orally ingested vaginal yeast infection medication and an acne treatment cream marketed by overseas pharmaceutical companies. These approvals and applications were made possible as a result of the preferential governmental policies and regulations in Bo' Ao, Hainan Province, which fosters the development and use of frontier technology by Hainan Qiyan.

The Group does not own nor engage in research and development of proprietary medical technology. Our research and development efforts are primarily development of our IT system. The technologies relied on by the Group in our more technology-driven subhealth assessment and intervention services are well-established technologies in the PRC which are designed and deployed by the Group to serve customers' daily health needs.

As described above, Hainan Qiyan has a different business focus from our Group and provides services that is not otherwise provided by our Group. The Company is of the view that operation of Hainan Qiyan within our Group would require significant dedication of management attention on frontier technologies and innovative products offerings of Hainan Qiyan. Given that Hainan Qiyan's operation is not part of our Core Business, the two businesses can be clearly delineated. Furthermore, while our Group operates nationally within the PRC and has a presence across 99 cities within the PRC, Hainan Qiyan only operates its business in Bo' Ao, Hainan province and therefore is also geographically delineated from the vast majority of our business operations. In particular, Hainan Qiyan is only able to engage in the licensed medical business such as provision of foreign registered and licensed drugs and medical devices as well as the licensed medical research in the Bo' Ao region pursuant to the Regulations of Hainan Free Trade Port Bo' Ao Lecheng International Medical Tourism Pilot Zone (海南自由貿易港博鰲樂城國際醫療旅遊先行區條例) and the Interim Provisions on Clinical Research and Conversion Application of Stem Cell Medical Technology in Hainan Bo' Ao Lecheng International Medical Tourism Pilot Zone (海南博鰲樂城國際醫療旅遊先行區幹細胞醫療技術臨床研究與轉換應用暫行規定). The operation of Hainan Qiyan's businesses relying on such pilot programs will therefore be restricted to the Bo' Ao region and cannot be expanded beyond the pilot zone.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Hainan Qiyan requires its patients to undergo certain diagnostic analysis as a preliminary step to its tailored medical services to its patients, such services are fundamentally different from the Company's detection and assessment services which are provided to customers who wants a better understanding of their overall health profile and identify suitable subhealth assessment and intervention solutions which are offered by our Group. In order to further delineate the operations between the Group and Hainan Qiyan, Hainan Qiyan has also entered into a deed of non-competition in favor of our Company, please refer to the paragraph headed "— The Hainan Qiyan Deed of Non-competition" in this section for further details. In addition, its shareholders have also entered into a shareholders' resolution confirming that unless the resolution is revoked by its shareholders at a duly convened shareholders meeting, it will not engage in any Restricted Business (as defined below). Please also refer to the subsection headed "— Corporate Governance Measures" in this section below for further details of the measures adopted by the Group to monitor and ensure delineation between business of the Group and Hainan Qiyan.

The services offered by the Group and Hainan Qiyan (including but not limited to the subhealth assessment and intervention services provided by our Group under the Neology brand as well as the respective diagnostic and detection services of Hainan Qiyan and the Group) are intended to serve different purposes and address different concerns of the Group's customers and Hainan Qiyan's patients, please refer to the table set forth above for further delineation of such service offerings.

Given the clear delineation between the Core Business of our Group and Hainan Qiyan's business, our Board is satisfied that our business is and will continue to be independent of our Controlling Shareholders. Save as disclosed above, as of the Latest Practicable Date, our Controlling Shareholders confirm that they did not have an interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our Core Business, that requires disclosure under Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

For the purpose of the Listing, Mr. Li, Ms. Li, Mr. Lian, Niu Guifen, Cui Yuanjun and Yuan Huimin (each being our Controlling Shareholders) have entered into a deed of non-competition in favor of the Company (the "**Deed of Non-competition**"), pursuant to which each of our Controlling Shareholders (collectively, the "**Covenantors**" and each a "**Covenantor**") has, amongst other matters, irrevocably and unconditionally undertaken with our Company (for itself and as trustee for its subsidiaries) that at any time during the Restricted Period (as defined below), that they would not and would use their best endeavors to procure that their respective associates (except any members of the Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm, company or entity, carry on, engage in, invest in, participate in, attempt to participate in, hold any right or have any financial interests in or otherwise be involved in or interested (economically or otherwise) in, any business or investment activities which are the same as, similar to or in competition with our core business, being provision of beauty and health management services (i.e. traditional beauty services, aesthetic medical services, surgical aesthetic medical services as well as subhealth assessment and intervention services) (the "**Restricted Business**") (whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Covenantors have further irrevocably and unconditionally undertaken that during the Restricted Period (as defined below), they should first offer new business opportunities to us in the following manner when any investment or other commercial business opportunities (but excluding any opportunities from Hainan Qiyang's individual patients which would be impractical and unduly burdensome, a "**New Business Opportunities**") related to the Restricted Business when such opportunities become available to them:

- (a) They will make referral of the New Business Opportunities to us, and will as soon as possible inform us in writing ("**Offer Notice**") about all necessary and reasonably required information in respect of any New Business Opportunities (including but not limited to details of the nature and investment or acquisition cost of the New Business Opportunities) for us to consider (a) whether the relevant New Business Opportunities will compete with our business, and (b) whether taking up the New Business Opportunities is in the interest of our Group.
- (b) Upon receipt of the Offer Notice, the independent non-executive Directors will consider whether to pursue the New Business Opportunities, taking into account whether the relevant New Business Opportunities would be able to achieve a sustainable profitability level, whether they are in line with the prevailing development strategies of our Group, and whether they are in the best interest of the Shareholders. Our Company must inform the Covenantors in writing within 20 Business Days after receipt of the Offer Notice about its decision on whether the New Business Opportunities will be pursued.
- (c) Only when (a) the Covenantors have received our notice to reject the New Business Opportunities and our confirmation that the relevant New Business Opportunities are not considered to be able to compete with our core business; or (b) the Covenantors have not received the relevant notice from our Company within the period as stated above in paragraph (b) after the Offer Notice has been received by us, then the Covenantors will be entitled to take up the New Business Opportunities on terms and conditions that are not more favorable than those specified in the Offer Notice issued to us.

If material changes occur in the terms and conditions of the New Business Opportunities after the referral of which have been made or procured to be made to us by the Covenantors, referral of the revised New Business Opportunities shall be made by the Covenantors to us again in the manner as stated above.

The above undertaking does not prevent the Covenantors from:

- (a) holding and/or being interested in, directly or indirectly, an interest in the Group from time to time;
- (b) holding and/or being interested in, directly or indirectly, an investment or interest in units or shares of any company, investment trust, joint venture, partnership or other entity which engage in any Restricted Business

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(collectively the “**Competing Entity**”) where the aggregate number of shares held by the Covenantors and/or their respective associates (except any members of our Group) does not exceed 10% of the issued shares of that class of shares of such Competing Entity provided that (i) such investment or interest does not grant, nor does any Covenantor and/or its associates (except any members of our Group) otherwise hold, any right to control the composition of the board of directors or managers of such Competing Entity nor any right to participate, directly or indirectly, in such Competing Entity; and (ii) none of the Covenantors and their respective associates (except any members of our Group) is the controlling shareholder of such Competing Entity;

- (c) holding and/or being interested in, directly or indirectly, any Restricted Business which our Group has decided not to make an investment as approved in writing by all the independent non-executive Directors; or
- (d) holding and/or being interested in, directly or indirectly, an investment or commercial opportunity relating to the Restricted Business which has first been offered or made available by any of the Covenantors to us, and either we do not respond to the offer by the due date, or after the decision by our independent non-executive Directors we decline in writing to accept such an opportunity.

Under the Deed of Non-competition, each Covenantor has further undertaken jointly and severally, to us (for ourselves and as trustee for the benefit of each of our subsidiary from time to time) the following:

- (i) each Covenantor has acknowledged that the independent non-executive Directors will review, where necessary and at least on an annual basis, the compliance with the undertaking contained in the Deed of Non-competition;
- (ii) it will provide, and will procure its associates (other than members of our Group) to provide, where necessary and at least on an annual basis, all information necessary for the review by our independent non-executive Directors, subject to any relevant laws, rules and regulations or any contractual obligations, to enable the independent non-executive Directors to enforce the Deed of Non-competition;
- (iii) without prejudicing the generality of paragraph (i) above, it will provide to us with an annual declaration on its compliance with the terms of the Deed of Non-competition for inclusion in our annual report;
- (iv) each Covenantor has acknowledged that our Company will make disclosures in our annual reports or by way of announcements regarding the decisions and the rationale of those decisions (as appropriate) of our independent non-executive Directors on matters referred to in the Deed of Non-competition and each of them gives its general consent to such disclosure;

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- (v) in the event that any disagreement between the Covenantors and us as to whether or not any activity or proposed activity of the Covenantors constitutes a Restricted Business, the matter shall be determined by our independent non-executive Directors whose majority decision shall be final and binding; and
- (vi) each Covenantor shall excuse themselves from, and abstain from voting and not be counted as quorum of, any meetings of Shareholders for consideration and approval of any matters referred to in the Deed of Non-competition which have or may give rise to conflicts of interest, actual or potential.

Pursuant to the Deed of Non-competition, the above restrictions would apply throughout the “Restricted Period”, being the period commencing from the Listing Date and ending on the earlier of the following date:

- (1) the Covenantors and/or their respective associates (other than any member of the Group) ceasing to hold, directly or indirectly, an aggregate of at least 30% of the issued share capital (or ceasing the control to exercise the voting rights of such shareholding) of our Company;
- (2) the Covenantors and/or their respective associates (other than any member of the Group) considered together as if they were one single Shareholder ceasing to be the largest single Shareholder; or
- (3) our Shares ceasing to be listed on the Stock Exchange (except for temporary suspension of trading of our Shares).

THE HAINAN QIYAN DEED OF NON-COMPETITION

Hainan Qiyang has also entered into a deed of non-competition in favor of the Company (the “**Hainan Qiyang Deed of Non-competition**”), pursuant to which Hainan Qiyang has, amongst other matters, irrevocably and unconditionally undertaken with our Company that at any time during the Hainan Qiyang Restricted Period (as defined below), that it would not and would use its best endeavors to procure that its associates (except any members of the Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm, company or entity, carry on, engage in, invest in, participate in, attempt to participate in, hold any right or have any financial interests in or otherwise be involved in or interested (economically or otherwise) in, any business or investment activities which are the same as the Restricted Business (whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person).

Hainan Qiyang has further irrevocably and unconditionally undertaken that during the Hainan Qiyang Restricted Period (as defined below), they should first offer any New Business Opportunities related to the Restricted Business when such opportunities become available to them:

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- (a) They will make referral of the New Business Opportunities to us via an Offer Notice containing all necessary and reasonably required information in respect of any New Business Opportunities (including but not limited to details of the nature and investment or acquisition cost of the New Business Opportunities) for us to consider (a) whether the relevant New Business Opportunities will compete with our business, and (b) whether taking up the New Business Opportunities is in the interest of our Group.
- (b) Upon receipt of the Offer Notice, the independent non-executive Directors will consider whether to pursue the New Business Opportunities, taking into account whether the relevant New Business Opportunities would be able to achieve a sustainable profitability level, whether they are in line with the prevailing development strategies of our Group, and whether they are in the best interest of the Shareholders. Our Company must inform Hainan Qiyian in writing within 20 Business Days after receipt of the Offer Notice about its decision on whether the New Business Opportunities will be pursued.
- (c) Only when (a) Hainan Qiyian has received our notice to reject the New Business Opportunities and our confirmation that the relevant New Business Opportunities are not considered to be able to compete with our core business; or (b) Hainan Qiyian has not received the relevant notice from our Company within the period as stated above in paragraph (b) after the Offer Notice has been received by us, then Hainan Qiyian will be entitled to take up the New Business Opportunities on terms and conditions that are not more favorable than those specified in the Offer Notice issued to us.

If material changes occur in the terms and conditions of the New Business Opportunities after the referral of which have been made or procured to be made to us by Hainan Qiyian, referral of the revised New Business Opportunities shall be made by Hainan Qiyian to us again in the manner as stated above.

The above undertaking does not prevent Hainan Qiyian from:

- (a) holding and/or being interested in, directly or indirectly, an interest in the Group from time to time;
- (b) holding and/or being interested in, directly or indirectly, an investment or interest in units or shares of Competing Entity where the aggregate number of shares held by Hainan Qiyian and/or its associates (except any members of our Group) does not exceed 10% of the issued shares of that class of shares of such Competing Entity provided that (i) such investment or interest does not grant, nor does Hainan Qiyian and/or its associates (except any members of our Group) otherwise hold, any right to control the composition of the board of directors or managers of such Competing Entity nor any right to participate, directly or indirectly, in such Competing Entity; and (ii) neither Hainan Qiyian nor their respective associates (except any members of our Group) is the controlling shareholder of such Competing Entity;

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- (c) holding and/or being interested in, directly or indirectly, any Restricted Business which our Group has decided not to make an investment as approved in writing by all the independent non-executive Directors; or
- (d) holding and/or being interested in, directly or indirectly, an investment or commercial opportunity relating to the Restricted Business which has first been offered or made available by Hainan Qiyian to us, and either we do not respond to the offer by the due date, or after the decision by our independent non-executive Directors we decline in writing to accept such an opportunity.

Hainan Qiyian has further undertaken to us (for ourselves and as trustee for the benefit of each of our subsidiary from time to time) the following:

- (i) Hainan Qiyian has acknowledged that the independent non-executive Directors will review, where necessary and at least on an annual basis, the compliance with the undertaking contained in the Hainan Qiyian Deed of Non-competition;
- (ii) it will provide, and will procure its associates (other than members of our Group) to provide, where necessary and at least on an annual basis, all information necessary for the review by our independent non-executive Directors, subject to any relevant laws, rules and regulations or any contractual obligations, to enable the independent non-executive Directors to enforce the Hainan Qiyian Deed of Non-competition;
- (iii) without prejudicing the generality of paragraph (i) above, it will provide to us with an annual declaration on its compliance with the terms of the Deed of Non-competition for inclusion in our annual report;
- (iv) Hainan Qiyian has acknowledged that our Company will make disclosures in our annual reports or by way of announcements regarding the decisions and the rationale of those decisions (as appropriate) of our independent non-executive Directors on matters referred to in the Hainan Qiyian Deed of Non-competition and gives its general consent to such disclosure;
- (v) in the event that any disagreement between Hainan Qiyian and us as to whether or not any activity or proposed activity of Hainan Qiyian constitutes a Restricted Business, the matter shall be determined by our independent non-executive Directors whose majority decision shall be final and binding; and
- (vi) Hainan Qiyian shall, in the event that it is a Shareholder, excuse themselves from, and abstain from voting and not be counted as quorum of, any meetings of Shareholders for consideration and approval of any matters referred to in the Hainan Qiyian Deed of Non-competition which have or may give rise to conflicts of interest, actual or potential.

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Pursuant to the Hainan Qiyuan Deed of Non-competition, the above restrictions would apply throughout the “**Hainan Qiyuan Restricted Period**”, being the period commencing from the Listing Date and ending on the earlier of the following dates:

- (1) the ending of the Restricted Period under the Deed of Non-competition for all of the parties therein;
- (2) the parties to the Deed of Non-competition and/or their respective associates (other than any member of the Group) at the time of Listing ceasing to hold, directly or indirectly, an aggregate of at least 30% of the issued share capital (or ceasing the control to exercise the voting rights of such shareholding) of Hainan Qiyuan;
- (3) our Shares ceasing to be listed on the Stock Exchange (except for temporary suspension of trading of our Shares).

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that we are capable of carrying on our business independently from our Controlling Shareholders and their associates upon Listing for the following principal reasons:

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in us after Listing, for the reasons stated below, we have full rights to make all decisions on, and to carry out, our own business operations independently. We have our independent and separate senior management team and our own staff to support the operations and management of our Core Business. We have registered the relevant intellectual property rights relating to relevant technologies of our business. We hold the licenses and qualifications necessary to carry on our current business, and have sufficient capital, facilities, technology and employees to operate the business independently from our Controlling Shareholders. We have access to suppliers and customers independently from and not connected to our Controlling Shareholders for sources of suppliers and customers.

We have conducted certain connected transactions or continuing connected transactions with Hainan Qiyuan, including a referral arrangement where we would refer suitable customers to Hainan Qiyuan and receive a cooperation fee in return for the services as well as property lease. For reasons and further details on such transactions, please refer to the section headed “Connected Transaction — Our Continuing Connected Transactions” in this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Notwithstanding such connected transactions or continuing connected transactions, we have been operating and will continue to operate independently from Hainan Qiyang on the following bases:

- (i) although we will generate revenue through our referral of customers to Hainan Qiyang, the revenue generated only amounted to 0.38%, 1.12% and 1.01% of our total revenue for the years ended December 31, 2019, 2020 and 2021, respectively, we also believe that we will be able to seek alternative Independent Third Parties operating frontier medical services to meet our customers' needs should we cease to cooperate with Hainan Qiyang;
- (ii) the revenue derived from our property lease to Hainan Qiyang is ancillary in nature and unrelated to our Core Business and we do not rely on such revenue for our business and operation. We also believe that the property lease is made on normal commercial terms and we could also lease the property to Independent Third Parties should Hainan Qiyang cease to lease the property from us;
- (iii) such continuing connected transactions are entered into during our ordinary and usual course of business based on arm's length negotiations and on normal commercial terms, which are fair and reasonable, and are in the interest of our Company and Shareholders as a whole; and
- (iv) we have put in place certain internal review procedures for our non-exempt continuing connected transactions. For details, please refer to the paragraphs headed "Connected Transactions — Internal Control Measures for Non-exempt Continuing Connected Transactions" in this prospectus.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders.

Management Independence

Our Board and senior management function independently from our Controlling Shareholders. Our Board comprises two executive Directors, three non-executive Directors and three independent non-executive Directors and none of our Directors and/or senior management is a director or senior management of Hainan Qiyang.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among others, that he or she must act for the benefit of and in the best interests of our Company and not allow any conflict between his or her duties as a Director and his personal interests. Further, we believe our independent non-executive Directors will bring independent judgment to the decision-making process of our Board. See "— Corporate Governance Measures" in this section for further details.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team is able to perform the managerial role in our Group independently.

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Financial Independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control functions of our Company, independent from our Controlling Shareholders. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. In addition, we have been and are capable of obtaining financing from third parties without relying on any guarantee or security provided by our Controlling Shareholders or their respective associates. During the Track Record Period and as of the Latest Practicable Date, there were no loans, advances and other non-trade balances due to and from the Controlling Shareholders.

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance on our Controlling Shareholders and their close associates after the Listing.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As of the Latest Practicable Date, save as disclosed in this section, none of our Directors had an interest in any business which competes or is likely to compete, either directly or indirectly, with our business, that requires disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (a) under the Articles of Association, where a Shareholders' meeting is to be held for considering proposed transactions in which any of our Controlling Shareholder or any of their associates has a material interest, the Controlling Shareholders or their associates will not vote on the relevant resolutions;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholder (the "Annual Review") and provide impartial and professional advice to protect the interests of our minority Shareholders;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (d) our Controlling Shareholder will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expenses; and
- (g) we have appointed Haitong International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations in Hong Kong, as well as the Listing Rules, including various requirements relating to corporate governance from the Listing Date to the date when our Company distribute our annual report of our financial results for the first full financial year commencing after the Listing Date.

In addition, the Company will maintain a corporate governance structure that will enable the Company effectively make business decisions when dealing with Hainan Qiyang. The Company intends to enable the disinterested Directors, who each possesses extensive experience in legal, financial management and medical fields will be able to deliberate and make sound business decisions that are brought before the Board for consideration.

In order to further strengthen the Board's ability to deliberate and decide on matters such as those involving Hainan Qiyang, the Company will implement the following policies at its Board level:

1. All Directors who are interested in a transaction must abstain from the decision making process of the relevant decision, any dealings between the Company and Hainan Qiyang will be subject to the decision of the disinterested Directors.
2. The Company will also adhere to the relevant rules and accounting standards, including but not limited to the disclosure and shareholder's approval requirement for connected transaction under the Listing Rules and the disclosure and accounting procedure on related party transactions under applicable accounting policies.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

3. The Board will implement sufficient protection mechanism in agreements between the Company and Hainan Qiyan or undertaking given by Hainan Qiyan in favor of us in order to restrict Hainan Qiyan's ability to offer services falling under the Restricted Business to its clients, including an option for the Group to terminate our lease agreement with Hainan Qiyan (in relation to its sole premise of operations) in the event of a breach of the above covenant.
4. The disinterested Directors will receive quarterly progress update reports for transactions with Hainan Qiyan from the management and operations team directly responsible for the transaction, as well as findings from the internal audit and operations team on whether they had discovered any engagement in Restricted Business or other potential breach of the Hainan Qiyan Deed of Non-competition by Hainan Qiyan and will have the opportunity to follow-up on any issues or request for additional information or documents directly from the relevant management and operations team.
5. The management and operations team has been given instructions to cooperate and provide requested information and documents to the disinterested Directors directly without involvement of any Directors who are interested.
6. In the event that the disinterested Directors are of the view that they would require additional assistance to assess the reasonableness or any other aspect of the transactions, they may resolve to engage any professional advisers and counsels (at the Company's cost) to review and advise them on matters pertaining to the transactions.
7. Our executive Directors have confirmed that at any time during the Hainan Qiyan Restricted Period, as part of the Annual Review described above Hainan Qiyan will confirm to the Company and the Company will disclose in our annual report a positive confirmation from them as to whether, to the best of their knowledge, Hainan Qiyan has operated any business which may fall within the Restricted Business.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the Listing.

CONNECTED TRANSACTIONS

OUR CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions with Hainan Qiyán, a company controlled by our Controlling Shareholders which will continue following the Listing Date, thereby constituting continuing connected transactions of our Group under Chapter 14A of the Listing Rules. Mr. Li Yang, our chairman of the Board is directly interested in 0.01% of Hainan Qiyán's registered share capital and the remaining 99.99% of Hainan Qiyán's registered share capital are held by Shanghai Qishi, a limited partnership that is in turn controlled by Mr. Li and Ms. Li. Hainan Qiyán is therefore regarded as a connected person of our Company. For further information regarding the shareholding of Shanghai Qishi, please refer to the section headed "Relationship with our Controlling Shareholders" in this prospectus.

Hainan Qiyán operates a hospital based in the Bo' Ao, Hainan province. It primarily provides medical services with a focus on the research, development and application of innovative technologies. For further information regarding Hainan Qiyán, please refer to the section headed "Relationship with our Controlling Shareholders" in this prospectus.

Continuing Connected Transactions Subject To the Reporting, Annual Review and Announcement Requirements but Exempt From the Independent Shareholders' Approval Requirement

1. *The Cooperation Agreement*

Principal terms and Listing Rules Implications: Shanghai Beauty Farm entered into a cooperation agreement with Hainan Qiyán on January 1, 2022 (the "**Cooperation Agreement**"), pursuant to which we will recommend and refer our clients to Hainan Qiyán based on our clients' needs and suitability for Hainan Qiyán's services in return for a cooperation fee. Shanghai Beauty Farm is responsible for providing consultations to our clients, coordinating and scheduling of meeting between the client and Hainan Qiyán, client relationship maintenance and other administrative tasks required to facilitate the cooperation. Shanghai Beauty Farm will only provide clients' information and refer them to Hainan Qiyán with the client's consent. In addition, Hainan Qiyán will also exclusively refer its patients in need of Group Diagnostic Services (including functional assessment and sub-health assessment services for overall health conditions, chronic disease, mental health screening and electrical impedance analysis on the digestive system) to the Group (the "**Diagnostic Service Referral**").

Pricing policies: Shanghai Beauty Farm shall receive a cooperation fee which will be equal to 60% of a referred client's actual spending with Hainan Qiyán in exchange for the services provided by the Group and Hainan Qiyán shall charge such referred clients fees in accordance with the price list applicable to all clients. We shall charge such referred clients no other fees in relation to services provided by Hainan Qiyán and to the extent the clients are referred through our franchised stores that provide services to them, part of the cooperation fee will be paid directly to the franchised stores. The cooperation fee will be invoiced and settled between Shanghai Beauty Farm and Hainan Qiyán on a monthly basis. The calculation of the cooperation fee was determined through arm's length negotiation between Hainan Qiyán and Shanghai Beauty Farm with reference to similar

CONNECTED TRANSACTIONS

cooperation arrangements and is no less favorable to our Group than cooperation fee that our Group charges Independent Third Parties who sought similar services from our Group. The cooperation arrangement between the Group and Hainan Qiyan is in line with cooperation arrangement between Hainan Qiyan and other independent service providers. Frost & Sullivan has confirmed that the term of the Cooperation Agreement (including the 60% cooperation fee arrangement) is comparable and in line with the general market practices with regards to such cooperation arrangements. Hainan Qiyan will not charge any referral fee for the Diagnostic Service Referral and the Group will directly charge Hainan Qiyan's referred patients in accordance with the Group's standard rates for the relevant Group Diagnostic Services.

Term: The Cooperation Agreement is valid from January 1, 2022 to December 31, 2024 and may be renewed at the expiration of the durations for three-year period by agreement of the parties and conditional upon satisfaction of applicable laws and regulations, Listing Rules and other regulatory requirements.

Reason for the transaction: The business operations of Hainan Qiyan, namely, operation of a hospital with a focus on research, development and application of innovative technologies, is not the focus of the Group's core services offering given Hainan Qiyan's innovative and research oriented nature. Our Group therefore considers that as the operation of such innovative business involving licensed drugs, licensed medical devices and licensed regenerative medicine research would require significant dedication of management attention, which should be focused on other areas of our business. As our clients have a need for such type of treatments relying on frontier technologies and innovative products, the Group could facilitate their need for such services that are not offered by our Group through our cooperation with Hainan Qiyan. For further details, please refer to the section headed "Relationship with our Controlling Shareholders" in this prospectus.

Historical amounts: For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the transaction amounts (inclusive of VAT) attributable to the cooperation services provided to Hainan Qiyan was RMB5.39 million, RMB16.92 million, RMB18.07 million and RMB10.8 million, respectively. Prior to our Group's disposal of Hainan Qiyan in December 2020, the transactions between Hainan Qiyan and our Group was recognized as intra-group transactions.

Annual cap and basis of cap: For the years ending December 31, 2022, 2023 and 2024, the total amount payable by Hainan Qiyan to our Group should not exceed RMB24.50 million, RMB29.50 million and RMB34.50 million, respectively. The annual cap was determined by our Directors having considered (i) the historical transaction amounts paid by Hainan Qiyan to Shanghai Beauty Farm during the Track Record Period and (ii) the volume of business that Shanghai Beauty Farm expects to generate taking into account our business growth and increase in potential referral that we are able to generate. The transaction amount for the six months ended June 30, 2022 is lower than the pro-rated annual cap for 2022 given the restriction on mobility and patients' ability to visit Hainan Qiyan during the relevant period as a result of the resurgence of COVID-19 in various cities in the PRC. It is expected that transactions under the Cooperation Agreement will ramp up as mobility and social distancing restrictions as eased in the future and the scale

CONNECTED TRANSACTIONS

of the cooperation will continue to grow in line with the increase of the annual cap. For instance, the transaction amount (inclusive of VAT) under the Cooperation Agreement was approximately RMB2.8 million in June 2022, having benefited from eased mobility restrictions during the month as well as the general increase of inter-provinces travels during the summer holiday.

Implication under the Listing Rules: Given that the applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the Cooperation Agreement will be less than 5% but more than HK\$3 million on an annual basis, under Rule 14A.76 of the Listing Rules, the transactions under the Cooperation Agreement will be subject to the reporting, announcement, annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

2. *The Property Lease Agreement*

Principal terms and Listing Rules Implications: Hainan Meirui International Medical and Health Industry Co., Ltd (海南美瑞國際醫療健康產業有限公司, "Hainan Meirui") entered into a property lease agreement dated January 1, 2022 with Hainan Qiyao (the "Property Lease Agreement"), pursuant to which Hainan Qiyao leases from Hainan Meirui for business operation and dormitory space in Bo'ao, Hainan province with an aggregate area of 4,618 sq.m. The Group also has an option to terminate the lease with Hainan Qiyao at any time shall Hainan Qiyao commits a breach in any of its agreements or undertaking entered into with, or for the benefit of the Group, including the Cooperation Agreement and the Hainan Qiyao Deed of Non-Competition.

Pricing policies: The rent to be charged is RMB6.40 million, RMB6.72 million and RMB7.06 million per annum for the year 2022, 2023 and 2024, respectively. The rent was determined by Hainan Qiyao and our Group through arm's length negotiation based on a number of factors including but not limited to the prevailing market rent of similar property located in the vicinity and the terms of the lease and the rent payable is exclusive of utilities usage which Hainan Qiyao pays directly to the relevant utilities service provider.

Term: The Property Lease Agreement is valid from January 1, 2022 to December 31, 2024 and may be renewed at the expiration of the durations for three-year period by agreement of the parties and conditional upon satisfaction of applicable laws and regulations and the Listing Rules.

Reason for the transaction: Hainan Qiyao was our subsidiary until December 25, 2020 when Hainan Meirui, our wholly-owned subsidiary, transferred 99.99% and 0.01% equity interest to Shanghai Qishi and Mr. Li Yang, respectively. Hainan Qiyao has leased the premise in Bo'ao, Hainan Province from our Group historically and such lease provides an additional source of income for the Group, the property lease arrangement has begun 2019 when Hainan Qiyao first began its operations. The Property Lease Agreement also deepens our cooperation with Hainan Qiyao and create additional synergy through the proximity of the business premise of Hainan Qiyao and our Company in Hainan province.

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Historical amounts: For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the rent attributable to the lease of the premise to Hainan Qiyuan was RMB0.50 million, RMB3.71 million, RMB6.10 million and RMB3.2 million, respectively. The rent received by Hainan Meirui for the year ended December 31, 2019 represented rent charged in the final quarter of the financial year after Hainan Qiyuan's commencement of business and Hainan Meirui also provided rental relief during the commencement stages of Hainan Qiyuan's operations. The rent also further increased in 2021 as Hainan Qiyuan rented ancillary space of approximately 849 sq.m. from the Company during the year. Prior to our Group's disposal of Hainan Qiyuan in December 2020, the transactions between Hainan Qiyuan and our Group was recognized as intra-group transactions.

Annual cap and basis of cap: For the years ending December 31, 2022, 2023 and 2024, the total rent payable by Hainan Qiyuan to Hainan Meirui should not exceed RMB6.40 million, RMB6.72 million and RMB7.06 million, respectively. The annual cap was determined by our Directors having considered the rent payable pursuant to the terms of the Property Lease Agreement and their expected usage of the utilities as set forth under the Property Lease Agreement, which factored into account a 5% annual rent increase.

Implication under the Listing Rules: Given that the applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the Property Lease Agreement will be less than 5% but more than HK\$3 million on an annual basis, under Rule 14A.76 of the Listing Rules, the transactions under the Property Lease Agreement will be subject to the reporting, announcement, annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Non-Exempt Continuing Connected Transactions — Contractual Arrangements

Background of the Contractual Arrangement

As disclosed in the section headed "Contractual Arrangements" of this prospectus, due to regulatory restrictions on foreign ownership in the PRC, we are restricted from directly owning 100% equity interest in the Medical Institutions. Therefore, in order for our Group to effectively control and enjoy the entire economic benefit of the Medical Institutions, a series of Contractual Arrangements have been entered into among Shanghai Liernuo, and Mr. Li. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits of the Medical Institutions and Shanghai Liernuo; (ii) exercise effective full control over the Medical Institutions and Shanghai Liernuo; and (iii) hold an exclusive option to purchase all or part of the equity interests in the Medical Institutions and/or Shanghai Liernuo when and to the extent permitted by PRC law.

Principal Terms of the Transactions

The Contractual Arrangements consist of five types of agreements: (a) the Exclusive Operation Services Agreement; (b) the Exclusive Purchase Option Agreements; (c) the Shareholders' Rights Entrustment Agreements; (d) the Equity Pledge Agreements; and (e)

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the Spouse Undertakings (all as defined in the section headed “Contractual Arrangements” in this prospectus, the “**Contractual Arrangements Agreements**”). See “Contractual Arrangements” in this prospectus for detailed terms of the Contractual Arrangements.

Listing Rules Implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as Mr. Li is a connected persons of the Group. Mr. Li is one of our Controlling Shareholders and an executive Director.

Reasons for the Continuing Connected Transactions and Waiver Application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group’s legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Having taken into account the reasons disclosed in this section, nothing has come into Sponsors’ attention to cast doubt on the reasonableness of the Company’s view that the Contractual Arrangements are fundamental to the Group’s legal structure and business operations. In addition, given the Contractual Arrangements were entered into prior to the Global Offering and are disclosed in this prospectus, and potential investors of our Company will participate in the Global Offering on the basis of such disclosure. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

INTERNAL CONTROL MEASURES FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have established the following internal review procedures to ensure that the terms for the non-exempt continuing connected transactions we have or may have in the future are on normal commercial terms and no more favorable to the counterparties than terms available to Independent Third Parties:

- If a comparable market price is available, we shall compare the proposed product price or service fee with the market price to ensure that the proposed product price or service fee will not be higher than the selling price of product or service of a similar type or nature provided by Independent Third Party suppliers or providers;

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- Before selecting a product supplier or services provider, our procurement department shall obtain price quotations from certain Independent Third Party suppliers or providers. The factors to be considered by us in conducting internal assessments include price, quality, exclusivity of product or service, and value added to us;
- If no comparable market price is available, our procurement department shall conduct arm's length negotiation with the relevant connected person to determine the terms in line with the relevant pricing policies based on trade cost of the product involved or value of the relevant service and the actual costs and expenses incurred;
- After arm's length negotiation with the connected person, our procurement department will report to our senior management who will approve individual transactions as appropriate;
- Our internal audit department will regularly collect and monitor the transaction amount of continuing connected transactions to ensure timely assessment on whether the annual caps (if applicable) are exceeded; and
- Our independent non-executive Directors will also conduct annual review on the non-exempt continuing connected transactions to ensure that such transactions have been entered into on normal commercial terms, are fair and reasonable and conducted according to the terms of the relevant framework agreement. The auditor of our Company will also conduct annual review on the pricing and annual cap (if applicable) of the non-exempt continuing connected transactions.

DIRECTORS' AND JOINT SPONSORS' VIEW

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described under the sub-section entitled “— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement” have been and will be carried out (i) in the ordinary and usual course of our business, (ii) on normal commercial terms or better and (iii) in accordance with the respective terms and annual cap that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors confirm that save for the requirements as waived by the Stock Exchange pursuant to the Company's waiver application as detailed below, the Company will comply with all other applicable requirements under Chapter 14A of the Listing Rules.

Our Directors (including our independent non-executive Directors) are also of the view that the Contractual Arrangements as detailed in the section headed “— Non-exempt Continuing Connected Transactions — Contractual Arrangements” and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of

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business of our Group, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and with respect to the term of the Contractual Arrangements which is of a duration of longer than three years, taking into consideration the reasons for entering into the Contractual Arrangements with details set out in this section above, it is reasonable for these agreements to be for a duration of more than three years and it is normal business practice for agreements of this type to be of such duration. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

The Joint Sponsors are of the view (i) that the continuing connected transactions described under the sub-section entitled “— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement” and “— Non-exempt Continuing Connected Transactions — Contractual Arrangements” in this section have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or better, and in accordance with the respective terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) that the proposed annual caps of such continuing connected transactions are fair and reasonable, and in the interests of our Company and our Shareholders as a whole. The Joint Sponsors also concur with our Directors’ view that the duration of the Contractual Arrangements is in line with normal business practice.

WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions described under the sub-section entitled “— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement” in this section constitute our continuing connected transactions under the Listing Rules, which are exempt from the independent Shareholders’ approval requirements but subject to the reporting, annual review, announcement requirements of the Listing Rules.

In respect of these continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted, waivers exempting us from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transactions as disclosed in “— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement” in this section, subject to the conditions that the aggregate amounts of the continuing connected transactions for each financial year shall not exceed the relevant amounts set forth in the respective annual caps (as stated above).

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In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) **No change without independent non-executive Directors' approval.** No change to the Contractual Arrangements (including with respect to any fees payable to Shanghai Liernuo thereunder) will be made without the approval of our independent non-executive Directors.
- (b) **No change without independent Shareholders' approval.** Save as described in "(d) Renewal and reproduction" below, no change to the agreements constituting the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement, circular or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in "(e) Ongoing reporting and approvals" below) will however continue to be applicable.
- (c) **Economic benefits flexibility.** The Contractual Arrangements shall continue to enable our Group to receive the entire economic benefits derived by the Medical Institutions and Shanghai Liernuo through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests in Shanghai Liernuo and/or the Medical Institutions for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the entire profit generated by the Medical Institutions and Shanghai Liernuo is retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Shanghai Beauty Farm by Shanghai Liernuo under the Exclusive Consultation and Service Agreement, and (iii) the Group's right to control the management and operation of, in substance, all of the voting rights of the Medical Institutions and Shanghai Liernuo.

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- (d) **Renewal and reproduction.** On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Shanghai Liernuo, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new foreign invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new foreign invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.
- (e) **Ongoing reporting and approvals.** Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:
- (i) The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
 - (ii) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the Medical Institutions to Shanghai Liernuo or by Shanghai Liernuo to Mr. Li which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and Shanghai Liernuo during the relevant financial period under paragraph (iii) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

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- (iii) Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Medical Institutions to Shanghai Liernuo or by Shanghai Liernuo to Mr. Li which are not otherwise subsequently assigned or transferred to our Group.
- (iv) For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the Medical Institutions and Shanghai Liernuo will be treated as our Company's wholly-owned subsidiary, and at the same time, the directors, chief executive officers or substantial shareholders of the Medical Institutions and Shanghai Liernuo (where applicable) and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Medical Institutions), and transactions between these connected persons and our Group (including for this purpose, the Medical Institutions), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- (v) Shanghai Liernuo will undertake that, for so long as the Shares are listed on the Stock Exchange, Shanghai Liernuo will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the connected transactions.

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BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

PRC Laws and Regulations Relating to Foreign Ownership Restriction

The Special Administrative Measures for the Access of Foreign Investment (Negative List) (2021) (外商投資准入特別管理措施(負面清單)(2021年版)) (the “**Negative List**”) promulgated jointly by the MOFCOM and the NDRC, the Negative List stipulates industries in which foreign investments is restricted and prohibited. According to the Negative List, the operation of medical institutions falls within the “restricted category”, and therefore may not be held 100% by foreign investors.

According to the Provisional Measures for the Administration on Sino-Foreign Equity and Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), foreign investors are not allowed to hold more than 70% equity interest in a medical institution.

As part of our business, our Group operates medical institutions which offer medical services including aesthetic medical services (including a limited amount of surgical aesthetic medical services that are classified as low-risk Grade I medical procedures according to the applicable laws and regulations) and subhealth assessment and intervention services (the “**Relevant Businesses**”). The operation of such medical institutions fall into the scope of the “restricted” category of the Negative List. As such, Relevant Businesses are operated in accordance with above-mentioned restrictions by the Group. With respect to the foreign investment restriction on medical services and medical institutions, the respective PRC Legal Advisers of our Company and of the Joint Sponsors conducted verbal consultations with officers of the National Health Commission of the PRC (the “**NHC**”) and the Shanghai Municipal Commission of Commerce (上海市商務委員會) (“**Shanghai MOFCOM**”). None of the Group’s medical institutions is directly foreign-owned and thus constitutes Sino-foreign joint ventures. Meanwhile, the Foreign Ownership Restriction to medical institutions is applied on a see-through basis. Shanghai Aiyumei, being an entity established in Shanghai and the indirect shareholder of the Company’s medical institutions, is the only foreign-owned entity within the Group to function as the holding company and holds up to the shareholding which foreign-owned entity are permitted to hold in medical institutions under the relevant foreign investment restrictions. Pursuant to the Foreign Investment Law of the People’s Republic of China (中華人民共和國外商投資法) and the information in the official websites of Shanghai MOFCOM and the officer consulted with regarding the introduction of their responsibilities, such officer is competent person to provide the confirmation, and the Shanghai MOFCOM has regulatory oversight over the foreign-owned entity located in Shanghai and is the competent authority supervising the activities of foreign investment in Shanghai, based on the foregoing, the PRC Legal Advisers of Company are of the view that Shanghai MOFCOM, rather than other provincial MOFCOM in the PRC, should be the competent and proper authority to be consulted on the Foreign Ownership Restriction about Contractual Arrangements of Company.

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Pursuant to the consultation, foreign investors are not allowed to hold, either directly or indirectly, more than 70% equity interest in a medical institution. Our PRC Legal Advisers are of the view that the NHC and Shanghai MOFCOM are the competent authorities to give such confirmation in respect of foreign investments. Based on the information in the official websites of such authorities regarding their respective functions as well as the officer's introduction of their responsibilities and confirmation provided during the consultation, the PRC Legal Advisers of the Company are of the view that the officers of NHC and Shanghai MOFCOM who provided the regulatory confirmations are competent persons to give such confirmations.

Based on above, our PRC Legal Advisers are of the opinion that, the Company, as a foreign entity, shall not hold, either directly or indirectly, more than 70% equity interest in the Company's Medical Institutions (the "**Foreign Ownership Restriction**").

The Contractual Arrangements are narrowly tailored to address solely the Foreign Ownership Restriction as set forth in the above paragraph. The Contractual Arrangements are also narrowly tailored to achieve the business purposes of the Company and to minimize the potential conflict with relevant PRC laws and regulations. The Company will not incur additional income tax and business tax after the entering into of the Contractual Arrangements.

As such, the Company, through Shanghai Meiju, currently holds equity interest in the Restricted Medical Institutions up to the permissible threshold of foreign investment under the Foreign Ownership Restriction, and the remaining shareholding in the Restricted Medical Institutions are held by Shanghai Liernuo and other PRC shareholders. In addition to the businesses operated under the Contractual Arrangement, we also derive revenue from our other subsidiaries which operates our stores and healthcare centers. For details, see "Business" and "Financial Information" in this prospectus.

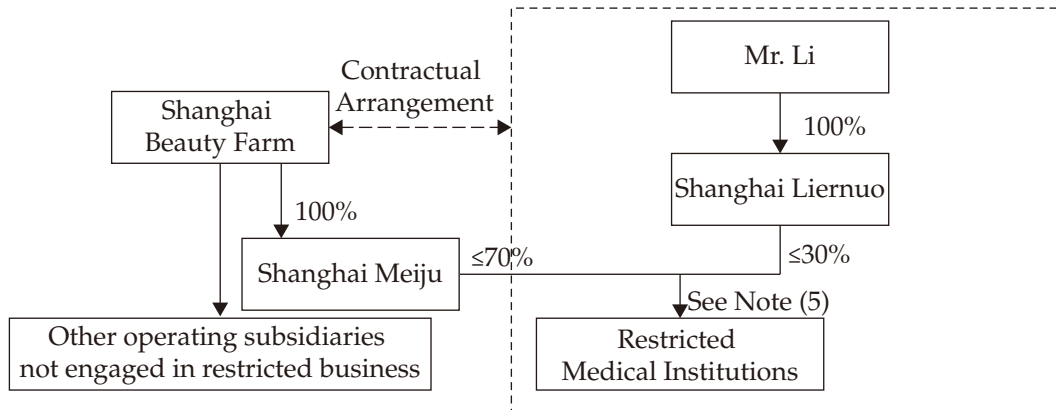
Circumstances in Which We Will Unwind the Contractual Arrangements

As regards the Contractual Arrangements, if and when MOFCOM and/or other relevant governmental departments promulgate any measures for the administration of foreign-invested enterprises engaging in operating medical institution business or such entities invested by foreign investors, depending on the limit of the percentage equity interest permitted to be held by foreign investors (if any), we will partially unwind the Contractual Arrangements and hold (directly or indirectly) equity interest in the Medical Institutions up to the percentage limit prescribed by such measures; and if there is no prescribed limit of the percentage equity interest permitted to be held by foreign investors and that our Company would be allowed to directly hold 100% of the equity interests in the Medical Institutions, we will fully unwind the Contractual Arrangements and directly hold the entire equity interest in the Medical Institutions.

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Shanghai Liernuo is the holding company of our Restricted Medical Institutions. The Contractual Arrangements apply to the equity interests in our Restricted Medical Institutions which cannot be directly held by the Group as a result of the Foreign Ownership Restriction. The following simplified diagram illustrates the flow of economic benefits from our Restricted Medical Institutions to our Group as stipulated under the Contractual Arrangements:



Notes:

- (1) Mr. Li is the registered shareholder of Shanghai Liernuo.
- (2) "←→" denotes direct legal and beneficial ownership in the equity interest.
- (3) "←---→" denotes contractual relationship.
- (4) "-----" denotes the entities that are subject to the Contractual Arrangements.

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- (5) As of the Latest Practicable Date, we own and operate 20 Restricted Medical Institutions. Amongst the Restricted Medical Institutions, 3 are at the pre-opening stage and 2 has closed down. 1 of the Restricted Medical Institutions at pre-opening stage are currently in the process of applying for the relevant medical institution practicing license. Other than the 1 aforementioned Restricted Medical Institutions, each of the other 19 Restricted Medical Institutions has obtained the necessary medical institution practicing license (either through themselves or their branch company) to operate as a Medical Institution. Details of our interest in the Restricted Medical Institutions are set forth below:

Medical Institutions	Brand that the Medical Institution operates under	Interest held or controlled by the Group ⁽ⁱ⁾
1 Shanghai Xiukeer Clinic Co., Ltd.* (上海秀可兒門診部有限公司)	CellCare, Neology	100%
2 Ningbo Jiangbei Yongjiang Xiukeer Medical Beauty Clinic Co., Ltd.* (寧波江北甬江秀可兒醫療美容診所有限公司)	CellCare	100%
3 Nanjing Xiukeer Medical Beauty Clinic Co., Ltd.* (南京秀可兒醫療美容診所有限公司)	CellCare	100%
4 Shenzhen Xiukeer General Outpatient Department* (深圳秀可兒綜合門診部)	CellCare	100%
5 Hangzhou Liyan Medical Beauty Clinic Co., Ltd.* (杭州麗研醫療美容診所有限公司)	CellCare	100%
6 Zhengzhou Liyan Medical Beauty Service Co., Ltd.* (鄭州麗研醫療美容服務有限公司)	CellCare	100%
7 Haikou Meilan Meishuyue Medical Beauty Clinic Co., Ltd.* (海口美蘭美束悅醫療美容門診部有限公司)	CellCare	100%
8 Beijing Hexin Medical Beauty Clinic Co., Ltd.* (北京禾欣醫療美容門診部有限公司)	CellCare	100%
9 Beijing Yanyuan Clinic Co., Ltd.* (北京研源診所有限公司)	Neology	100%
10 Chengdu Gaixin Xiukeer Medical Beauty Clinic Co., Ltd.* (成都高新秀可兒醫療美容診所有限公司)	CellCare	100%
11 Chongqing Xiukeer General Outpatient Department Co., Ltd.* (重慶秀可兒綜合門診部有限公司)	CellCare, Neology	95% ^(v)
12 Xi'an Meiju Medical Technology Development Co., Ltd.* (西安美聚醫療科技發展有限公司)	CellCare ⁽ⁱⁱⁱ⁾	100% ^(vi)
13 Wuhan Qiyang General Outpatient Department Co., Ltd.* (武漢啟研綜合門診部有限公司)	CellCare, Neology	90.25% ^(vii)
14 Beijing Meishu Laser Medical Clinic Co., Ltd.* (北京美束激光醫療診所有限公司)	Neology ⁽ⁱⁱⁱ⁾	86% ^(viii)
15 Changchun Meiju Medical Technology Development Co., Ltd.* (長春美聚醫療科技發展有限公司) ("Changchun Meiju")	CellCare, Neology ^(iv)	90% ^(ix)
16 Qingdao Aimei Medical Beauty Co., Ltd.* (青島艾美醫療美容有限公司)	CellCare	100%
17 Haikou Xiukeer Medical Beauty Clinic Co., Ltd.* (海口秀可兒醫療美容門診部有限公司)	CellCare ⁽ⁱⁱ⁾	100%
18 Xi'an Beilin Xiukeer General Outpatient Department Co., Ltd.* (西安碑林秀可兒綜合門診部有限公司)	CellCare, Neology	84% ^(x)
19 Haikou Yanyuan Clinic Co., Ltd.* (海口研源診所有限公司)	Neology ⁽ⁱⁱ⁾	100%
20 Hefei Xiukeer Medical Beauty Clinic Co., Ltd.* (合肥秀可兒醫療美容診所有限公司)	CellCare ⁽ⁱⁱ⁾	100%

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Notes:

- * English translations are for reference only
- (i) Unless otherwise indicated, non-controlling interests are held by Independent Third Parties.
- (ii) stores that are at the pre-opening stage.
- (iii) store that has closed down.
- (iv) Changchun Meiju operates both the CellCare and Neology brand through its branches, and the branch operating the Neology brand is currently in its pre-opening stage.
- (v) 95% of the equity interest is controlled by the Group. The remaining 5% equity interest is controlled by Chongqing Douma Technology Development Co., Ltd. (重慶度瑪科技發展有限公司), a company controlled by Zhang Hong (張虹).
- (vi) 60% of the equity interest is controlled by the Group, the remaining 40% of the equity interest is controlled by Xi'an Beauty Farm Beauty Service Co., Ltd. (西安美麗田園美容服務有限公司), the Group in turn controls approximately 54.00% of its equity interest and the remaining interest controlled by Long Yongli (龍永麗) as to 36.00% and Shanghai Shengqian Business Management Partnership (Limited Partnership) (上海盛芊商業管理合夥企業(有限合夥), “**Shanghai Shengqian**”) as to 10.00%. Shanghai Shengqian partners include Mr. Li (our executive Director who is interested in 0.01% of its interest), the Group (as to 49.99% of its interest) and six other Independent Third Parties.
- (vii) 90.25% of the equity interest is controlled by the Group, the remaining equity interest is controlled by Zheng Hua (鄭華) and Li Bo (李波) as to 5.00% and 4.75%, respectively.
- (viii) 86% of the equity interest is controlled by the Group, the remaining equity interest is controlled by Jiang Huicheng (蔣會成), Lin Keting (蘭科婷) and Lin Ping (林萍) as to 8%, 3% and 3%, respectively.
- (ix) 90% of the equity interest is controlled by the Group, the remaining equity interest is held equally by two entities ultimately controlled by Zhang Xiaoda (張效達), Ren Xianshi (任憲石) and Wang Xiaohong (王曉紅).
- (x) 84% of the equity interest in controlled by the Group, the remaining equity interest is controlled by Long Yongli (龍永麗).

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SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

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

(1) Exclusive Operation Services Agreement

Mr. Li, Shanghai Beauty Farm and the Restricted Medical Institutions have entered into exclusive operation services agreements with Shanghai Liernuo on April 13, 2022 and on November 4, 2022, (the “**Exclusive Operation Services Agreements**”), pursuant to which, the Restricted Medical Institutions, Mr. Li and Shanghai Liernuo agreed to engage Shanghai Beauty Farm as their exclusive provider of technical support, consulting services and other services in exchange for a service fee.

Under the Exclusive Operation Services Agreement, the services to be provided include but are not limited to (i) business, financing and investment, (ii) medical technology related consultation, medical resources sharing and medical professionals training, (iii) human resources management, (iv) market research, (v) strategies for marketing and business expansion, (vi) supplier and inventory management, (vii) operation and marketing strategy formulation and monitoring, (viii) medical service quality control, (ix) internal management and (x) other services relating to management and operation of medical institutions. Shanghai Beauty Farm has proprietary rights to all the intellectual properties developed or created by itself from the performance of these services. During the term of the Exclusive Operation Service Agreement, Shanghai Beauty Farm may use the intellectual property rights owned by Shanghai Liernuo and the Restricted Medical Institutions free of charge and without any conditions. Shanghai Liernuo and the Restricted Medical Institutions may also use the intellectual property work created by Shanghai Beauty Farm from the services performed by Shanghai Beauty Farm in accordance with the Exclusive Operation Service Agreement.

Under the Exclusive Operation Services Agreement, the service fee shall be an amount equal to the distributable net profit of the Restricted Medical Institutions of a given audited financial year, after deducting losses from the previous financial years (if any) and any statutory provident fund (if applicable). Apart from the service fees, Shanghai Liernuo and the Restricted Medical Institutions shall reimburse all reasonable costs, reimbursed payments and out-of-pocket expenses incurred by Shanghai Beauty Farm in connection with the performance of the Exclusive Operation Services Agreement and provision of services.

In addition, absent of a prior written consent of Shanghai Beauty Farm, during the term of the Exclusive Operation Services Agreement, Mr. Li, Shanghai Liernuo and the Restricted Medical Institutions shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar corporation relationships with any third party. Shanghai Beauty Farm has the right to appoint any third party to provide any or all of the services, or to fulfill its obligations under the Exclusive Operation Services Agreement.

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The Exclusive Operation Services Agreements shall become effective from April 13, 2022 and from November 4, 2022, respectively, shall remain valid for three years and shall, subject to compliance with the Listing Rules, be automatically renewed for three years each time when its term ends, unless being terminated in accordance with the terms therein.

According to the Exclusive Operation Services Agreement, unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except Shanghai Beauty Farm) is entitled to unilaterally terminate the agreement. Furthermore, pursuant to the Exclusive Operation Services Agreement, it may only be terminated in the event that (i) continued performance of the obligations of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Shanghai Beauty Farm or its designated person directly holds all the equity interests in Shanghai Liernuo, and all of Mr. Li's equity interests in Shanghai Liernuo or all of the assets of Shanghai Liernuo attributable to Mr. Li are transferred to Shanghai Beauty Farm or its designated person pursuant to applicable PRC laws and regulations, or (iii) Shanghai Beauty Farm unilaterally terminates the agreement.

(2) Exclusive Purchase Option Agreements

On April 13, 2022 and on November 4, 2022, Shanghai Beauty Farm, Mr. Li, Shanghai Liernuo, and the Restricted Medical Institutions entered into exclusive purchase option agreements (the “**Exclusive Purchase Option Agreements**”).

Pursuant to the Exclusive Purchase Option Agreements, (i) Mr. Li irrevocably and unconditionally grants an exclusive option to Shanghai Beauty Farm which entitles Shanghai Beauty Farm to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interest in Shanghai Liernuo itself or through its designated person(s), (ii) Shanghai Liernuo irrevocably and unconditionally grants an exclusive option to Shanghai Beauty Farm which entitles Shanghai Beauty Farm to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Shanghai Liernuo itself or through its designated person(s), (iii) Shanghai Liernuo irrevocably and unconditionally grants an exclusive option to Shanghai Beauty Farm which entitles Shanghai Beauty Farm or its designated person to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests held by Shanghai Liernuo in the Restricted Medical Institutions from Shanghai Liernuo itself or through Shanghai Beauty Farm's designated person(s), (iv) the Restricted Medical Institutions irrevocably and unconditionally grants an exclusive option to Shanghai Beauty Farm which entitles Shanghai Beauty Farm to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests of the Restricted Medical Institutions, and (v) the Restricted Medical Institutions irrevocably and unconditionally grant an exclusive option to Shanghai Beauty Farm which entitles Shanghai Beauty Farm to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the Restricted Medical Institutions from the Restricted Medical Institutions directly or indirectly attributable to Shanghai Liernuo themselves or through Shanghai Beauty Farm's designated person(s), Shanghai Beauty Farm may appoint designated person(s) in its sole discretion when exercising its

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option. The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of Mr. Li, Shanghai Liernuo and the Restricted Medical Institutions will undertake that he/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer of equity interests or assets to Shanghai Beauty Farm and/or its designated person(s) within ten (10) business days.

Mr. Li and Shanghai Liernuo undertake to develop the business of the Restricted Medical Institutions and not to take any action which may affect their asset value, goodwill and effectiveness of business licenses. Furthermore, in the absence of prior written consent of Shanghai Beauty Farm, Mr. Li and Shanghai Liernuo shall not (i) transfer or otherwise dispose of any option under the Exclusive Purchase Option Agreements, or create any encumbrances thereon; and the Restricted Medical Institutions shall not assist in transferring or otherwise disposing of any option under the Exclusive Purchase Option Agreements, or creating any encumbrances thereon; and (ii) directly or indirectly (by itself or through the entrustment of any other natural person or legal person entity) carry out, own or acquire any business compete with or likely compete with the business of Shanghai Beauty Farm or our Group.

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

Exclusive Purchase Option Agreements shall become effective from April 13, 2022 and from November 4, 2022, respectively. Each of the Exclusive Purchase Option Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreements (except Shanghai Beauty Farm) is entitled to unilaterally terminate the agreements.

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Each of the Exclusive Purchase Option Agreements may only be terminated in the event that (i) continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Shanghai Beauty Farm or its designated person directly holds all the equity interests in Shanghai Liernuo, and all of Mr. Li's equity interests in Shanghai Liernuo or all of the assets of Shanghai Liernuo attributable to Mr. Li are transferred to Shanghai Beauty Farm or its designated person pursuant to applicable PRC laws and regulations, (iii) Shanghai Beauty Farm or its designated person directly holds all the equity interests in the Restricted Medical Institutions and all of Shanghai Liernuo's equity interests in the Restricted Medical Institutions or all of the assets of the Restricted Medical Institutions are transferred to Shanghai Beauty Farm or its designated person pursuant to applicable PRC laws and regulations or (iv) Shanghai Beauty Farm unilaterally terminates the agreements.

The Group may incur substantial cost (such as the cost in the change of ownership) in order to exercise the option (or procure a designated person) to acquire Mr. Li's interest in Shanghai Liernuo or Shanghai Liernuo's interest in the Restricted Medical Institutions.

(3) Shareholders' Rights Entrustment Agreements

On April 13, 2022 and on November 4, 2022, Shanghai Beauty Farm, Mr. Li, Shanghai Liernuo and the Restricted Medical Institutions entered into the shareholders' rights entrustment agreements (the "**Shareholders' Rights Entrustment Agreements**").

Pursuant to the Shareholders' Rights Entrustment Agreements, (i) Mr. Li irrevocably agree to authorize Shanghai Beauty Farm (and its successors or liquidators) or a natural person designated by Shanghai Beauty Farm to exercise all of its rights and powers as a shareholder of Shanghai Liernuo, including the rights to vote at a shareholders' meeting, sign minutes, and file documents with the relevant companies registry, (ii) Shanghai Liernuo irrevocably agrees to authorize Shanghai Beauty Farm (and its successors or liquidators) or a natural person designated by Shanghai Beauty Farm to exercise all of its rights and powers as a shareholder of the Restricted Medical Institutions (as applicable), including the rights to vote at a shareholders' meeting, sign minutes, and file documents with the relevant companies registry. Pursuant to the Shareholders' Rights Entrustment Agreements, the power of attorney granted in favor of Shanghai Beauty Farm and actions it takes in relation to the Contractual Arrangement will only be decided by officers or Directors other than Mr. Li (being a registered holder). As Shanghai Beauty Farm is a subsidiary of the Company, the terms of the Shareholders' Rights Entrustment Agreements will give the Company control over all corporate decisions of the Restricted Medical Institutions and 100% equity interests of Shanghai Liernuo.

The Shareholders' Rights Entrustment Agreements shall become effective from April 13, 2022 and from November 4, 2022, respectively. Each of the Shareholders' Rights Entrustment Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except Shanghai Beauty Farm) is entitled to unilaterally terminate it.

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Each of the Shareholders' Rights Entrustment Agreements may only be terminated in the event that (i) continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Shanghai Beauty Farm or its designated person directly holds all the equity interests in Shanghai Liernuo, and all of Mr. Li's equity interests in Shanghai Liernuo or all of the assets of Shanghai Liernuo are transferred to Shanghai Beauty Farm or its designated person pursuant to applicable PRC laws and regulations, (iii) Shanghai Beauty Farm or its designated person directly holds all the equity interests in Restricted Medical Institutions and all of the Shanghai Liernuo's equity interests in Restricted Medical Institutions or all of the assets of Restricted Medical Institutions attributable to Shanghai Liernuo are transferred to Shanghai Beauty Farm or its designated person pursuant to applicable PRC laws and regulations; or (iv) Shanghai Beauty Farm unilaterally terminates the agreement.

(4) Equity Pledge Agreements

On April 13, 2022 and on November 4, 2022, Shanghai Liernuo, Mr. Li, Shanghai Beauty Farm and the Restricted Medical Institutions entered into equity pledge agreements (the "**Equity Pledge Agreements**"). Pursuant to the Equity Pledge Agreements, (i) Mr. Li agree to pledge all of his equity interests in Shanghai Liernuo, and (ii) Shanghai Liernuo agrees to pledge all of its equity interests in the Restricted Medical Institutions to Shanghai Beauty Farm to secure performance of all their obligations and the obligations of Mr. Li, Shanghai Liernuo and the Restricted Medical Institutions under the Exclusive Operation Services Agreement, the Exclusive Purchase Option Agreements, the Shareholders' Rights Entrustment Agreements and the Equity Pledge Agreements underlying the Contractual Arrangements.

If Shanghai Liernuo or the Restricted Medical Institutions declare any dividend during the term of the pledge, Shanghai Beauty Farm is entitled to receive all dividends or other income arising from the pledged equity interests, if any. In case of any breach of obligations by any of Shanghai Liernuo, Mr. Li or the Restricted Medical Institutions, upon issuing a written notice to Mr. Li or Shanghai Liernuo, Shanghai Beauty Farm will be entitled to all remedies available in the Contractual Arrangements including but not limited to disposing of the pledged equity interests.

In addition, pursuant to the Equity Pledge Agreements, Mr. Li and Shanghai Liernuo undertake to Shanghai Beauty Farm, among other things, not to transfer their pledged equity interests and not to create or allow any pledge or encumbrance thereon that may affect the rights and interest of Shanghai Beauty Farm without its prior written consent. Shanghai Liernuo and the Restricted Medical Institutions undertake to Shanghai Beauty Farm, among other things, not to consent to any transfer the pledged equity interests or to create or allow any pledge or encumbrance thereon without Shanghai Beauty Farm's prior written consent.

We will register the equity pledges contemplated under the Equity Pledge Agreements as soon as practicable and our PRC Legal Advisers have confirmed that there is no legal impediment to completing the registration of the equity pledges contemplated under the Equity Pledge Agreements with the relevant PRC legal authorities so long as we comply with the relevant legal requirements.

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Each of the Equity Pledge Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except Shanghai Beauty Farm) is entitled to unilaterally terminate it.

Each of the Equity Pledge Agreements may only be terminated in the event that (i) continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Shanghai Beauty Farm or its designated person directly holds all the equity interests in Shanghai Liernuo, and all of Mr. Li's equity interests in Shanghai Liernuo or all of the assets of Shanghai Liernuo are transferred to Shanghai Beauty Farm or its designated person pursuant to applicable PRC laws and regulations, (iii) Shanghai Beauty Farm or its designated person directly holds all the equity interests in the Restricted Medical Institutions or all of the assets of the Restricted Medical Institutions attributable to Shanghai Liernuo are transferred to Shanghai Beauty Farm or its designated person pursuant to applicable PRC laws and regulations or (iv) Shanghai Beauty Farm unilaterally terminates the agreement.

(5) Spouse Undertakings

Ms. Chen Xiaomei (陳曉梅), the spouse of Mr. Li has signed an undertaking (the "Spouse Undertakings") to the effect that she has no right to or control over such interests of the respective persons and will not have any claim on such interests.

Our PRC Legal Advisers are of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of Mr. Li, and (ii) the death or divorce of Mr. Li would not affect the validity of the Contractual Arrangements, and Shanghai Beauty Farm or our Company can still enforce their right under the Contractual Arrangements against Mr. Li and his successors.

Common Terms of the Contractual Arrangements

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Shanghai Arbitration Commission for arbitration, in accordance with the then effective arbitration rules.

The language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of Mr. Li, Shanghai Liernuo and the Restricted Medical Institutions or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Shanghai Liernuo and the Restricted Medical Institutions; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of Shanghai Beauty Farm or Shanghai Liernuo or the Restricted Medical Institutions are located for interim remedies or injunctive relief.

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However, our PRC Legal Advisers have advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Shanghai Liernuo and the Restricted Medical Institutions pursuant to the current PRC laws. Also, the equity pledge shall only be legally effective after the completion of registration procedures by the competent PRC governmental authorities. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that Shanghai Liernuo, the Restricted Medical Institutions or Mr. Li breach any terms of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert fully effective control over Shanghai Liernuo and conduct our business could be materially and adversely affected. For details, see “Risk Factors — Risks Relating To Our Corporate Structure” in this prospectus.

Succession

As advised by our PRC Legal Advisers, the provisions set out in the Contractual Arrangements are also binding on any successor(s) of Mr. Li as if such successors were a signing party to the Contractual Arrangements. As such, any breach by the successors would be deemed to be a breach of the Contractual Arrangements. Under the PRC Civil Code, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents. In the case of a breach, Shanghai Beauty Farm can enforce its rights against the successors. Pursuant to the Contractual Arrangements, in the event of changes in the shareholding of Shanghai Liernuo, any successor(s) of Shanghai Liernuo shall assume any and all rights and obligations of Shanghai Liernuo under the Contractual Arrangements as if such successor were a signing party to the relevant contract.

Conflicts of Interests

Mr. Li and Shanghai Liernuo undertake that, during the period that the Contractual Arrangements remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with Shanghai Beauty Farm or its direct or indirect shareholders. If there is any conflict of interest, Shanghai Beauty Farm shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. Mr. Li and Shanghai Liernuo will unconditionally follow the instructions of Shanghai Beauty Farm to take any action to eliminate such conflict of interest.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company or Shanghai Beauty Farm is legally required to share the losses of, or provide financial support to Shanghai Liernuo and the Restricted Medical Institutions. Further, Shanghai Liernuo and the Restricted Medical Institutions are limited liability companies and shall be solely liable for its own debts and losses with assets and properties owned by them. In addition,

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given that our Group conducts a substantial portion of its business operations in the PRC through Shanghai Liernuo and the Restricted Medical Institutions, which hold the requisite PRC operational licenses and approvals, and that its financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if Shanghai Liernuo and the Restricted Medical Institutions suffer losses.

Liquidation

Pursuant to the Equity Interest Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of Shanghai Liernuo and the Restricted Medical Institutions shall, upon the request of Shanghai Beauty Farm, give the proceeds they received from liquidation as a gift to Shanghai Beauty Farm or its designee(s) to the extent permitted by the PRC laws.

Accordingly, in the event a winding up of Shanghai Liernuo and the Restricted Medical Institutions, Shanghai Beauty Farm is entitled to liquidation proceeds of Shanghai Liernuo and the Restricted Medical Institutions based on the Contractual Arrangements for the benefit of our Company's creditors and shareholders.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our Confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through Shanghai Liernuo and the Restricted Medical Institutions under the Contractual Arrangements.

Legality of the Contractual Arrangements

As advised by our PRC Legal Advisers, and with regards to the confirmation from the NHC and Shanghai MOFCOM as the competent authorities for foreign investment administration of the Company, are of the view that the Company, as a foreign entity, shall not hold more than 70% of equity interest in any medical institution.

Our PRC Legal Advisers conducted verbal consultations with officers of NHC and Shanghai MOFCOM and according to the consultations, the execution of the Contractual Arrangements is not subject to approval from NHC or Shanghai MOFCOM. Our PRC Legal Advisers are of the view that NHC and Shanghai MOFCOM are the competent authorities to give such confirmation in respect of foreign investments in medical institutions.

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Based on the above, our PRC Legal Advisers are of the opinion that:

- each of the agreements under the Contractual Arrangements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto, does not constitute a breach of relevant laws and regulations and would not be deemed invalid or ineffective under the relevant PRC laws and regulations; except that under current PRC laws, (a) the Shanghai Arbitration Commission has no power to grant injunctive relief, nor will it be able to order the winding up of the Restricted Medical Institutions; and (b) interim remedies or enforcement orders granted by overseas courts or arbitral bodies such as the courts of Hong Kong and the Cayman Islands are subject to applications to competent PRC courts for recognition and enforcement;
- no approval or authorization from the PRC governmental authorities are required for entering into the Contractual Arrangements except that each of the equity pledges under Equity Pledge Agreements is subject to registration requirements with the relevant Administration for Market Regulations and the exercising of the exclusive options by Shanghai Beauty Farm, according to the Exclusive Purchase Option Agreements, shall be subject to the then effective PRC laws and regulations and relevant approval procedures (if applicable).

Furthermore, the PRC Civil Code (中華人民共和國民法典) came into effect on January 1, 2021 and the PRC Contract Law and the General Principles of the PRC Civil Law were repealed simultaneously. The PRC Civil Code stipulates certain circumstances which will lead to the invalidation of civil juristic acts, including but not limited to a civil juristic act performed by a person having no capacity for civil conducts, a civil juristic act performed by the actor and the counterparty based on false expression of intention, a civil juristic act violates the mandatory provisions of laws and administrative regulations, a civil juristic act violates of public order and morals, etc. The provisions on the validity of civil juristic acts also apply to the validity of contracts.

Based on the analysis below and the Company's confirmation, the PRC Legal Advisers of Company are of the view that the Contractual Arrangements would not fall within the circumstances stipulated in the PRC Civil Code which will lead such arrangements as invalid civil juristic act:

Circumstances Stipulated in The PRC Civil Code Which Will Lead to The Invalidation of Civil Juristic Acts

Analysis of the PRC Legal Advisers of the Company

Article 144 – A civil juristic act performed by a person who has no capacity for performing civil juristic acts is void.

The parties to the Contractual Arrangements has full capacity for performing civil juristic acts, hence it does not fall within the circumstances specified in this article.

Article 146 – A civil juristic act performed by a person and another person based on a false expression of intent is void.

All parties executed the Contractual Arrangements based on a genuine expression of intent, hence it does not fall within the circumstances specified in this article.

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Circumstances Stipulated in The PRC Civil Code Which Will Lead to The Invalidation of Civil Juristic Acts

Article 153 – A civil juristic act in violation of the mandatory provisions of laws or administrative regulations is void, unless such mandatory provisions do not lead to invalidity of such a civil juristic act. A civil juristic act that offends the public order or good morals is void.

Article 154 – A civil juristic act is void if it is conducted through malicious collusion between a person who performs the act and a counterparty thereof and thus harms the lawful rights and interests of another person.

Analysis of the PRC Legal Advisers of the Company

As elaborated in this prospectus, the Contractual Arrangements constitutes legal, valid and binding obligations of the parties thereto and the execution, delivery and performance of Contractual Arrangements by the parties thereto, are not in violation of any mandatory provisions of current PRC Laws and regulations or do not result in any offense to public order or good morals in PRC, hence it does not fall within the circumstances specified in this article.

The execution, delivery and performance of Contractual Arrangements by the parties thereto are based on a genuine expression of intent without the malicious collusion, hence it does not fall within the circumstances specified in this article.

Based on the above analysis of our PRC Legal Advisers and subject to the limitations and restrictions set out herein, our Directors are of the view that the agreements under the Contractual Arrangement conferring significant control and economics benefit from the Restricted Medical Institutions is enforceable under the relevant laws and regulations.

We have been advised by our PRC Legal Advisers, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC governmental authorities will not take a view that is different or otherwise contrary to the above opinion of our PRC Legal Advisers. We have been further advised by our PRC Legal Advisers that if the PRC governmental authorities finds that the Contractual Arrangements do not comply with PRC government restrictions on foreign investment in the Relevant Businesses, we could be subject to severe penalties, which could include:

- (a) revoking the business and/or operating licenses of relevant entities;
- (b) restricting or prohibiting the Contractual Arrangements;
- (c) imposing fines or other requirements with which we may find difficult or impossible to comply; and
- (d) requiring us to restructure the relevant ownership structure or operations.

Any of these events could cause significant disruption to our business operations and severely damage our reputation, which could have a material adverse effect on our financial condition and results of operation. For details, see “Risk Factors — Risks Relating To Our Corporate Structure” in this prospectus.

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The Company's PRC Legal Advisers are of the view that none of the agreements under the Contractual Arrangements violates any provisions of the existing articles of association of each of Shanghai Liernuo, Shanghai Meiju and the Restricted Medical Institutions.

Pursuant to the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法》(徵求意見稿)) published in December 2021 (collectively, the "Draft Regulations for Comments"), assuming the Draft Regulations for Comments had come into effect and were implemented with its current contents and in its current form, the Company's proposed Listing would constitute an indirect overseas issuance of shares and listing by a domestic enterprise and therefore would be required to comply with the filing procedures and submit the relevant information to the CSRC.

However, as advised by our PRC Legal Advisers, this would not have a material and adverse impact on our business operations and our proposed Listing for the following reasons:

- (i) on December 24, 2021, the spokesperson of the CSRC held a press conference in relation to the Draft Regulations for Comments, during which the spokesperson of the CSRC stated that "conditional upon complying with the domestic laws and regulations, enterprises with VIE structure that have met the compliance requirements may seek listing overseas after completing proper filing procedures". Our reorganization and the contractual arrangement do not violate the M&A Rules and other relevant PRC laws and regulations and the registration under SAFE Circular 37 has been duly completed;
- (ii) as of the Latest Practicable Date, there are no laws, regulations or regulatory documents cited by the CSRC in effect that would explicitly require us to comply with any approval, verification or filing procedures for our proposed Listing. If the Draft Regulations for Comments are promulgated and implemented with its current contents and in its current form, there is no material obstacles for us to comply with the filing procedures under the Draft Regulations for Comments for the followings: (a) There are no specific clauses in national laws and regulations and relevant provisions prohibiting our proposed Listing; (b) we have not received any inquiry, notice, warning, or sanctions regarding cybersecurity review, the listing plan or other national security related issues;
- (iii) based on the assessment of our PRC Legal Advisers, we do not fall into the scope of any of the following circumstances under which overseas securities offering and listing by domestic companies should be prohibited, as prescribed in the Drafts for Comments: (a) there are material ownership disputes over the equity, major assets, and core technology, etc.; (b) our

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domestic company or its controlling shareholders and actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations; (c) the directors, supervisors, or senior management have been subject to administrative punishments for severe violations in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations;

- (iv) each of our domestic subsidiaries has formulated its articles of association, improved its internal control system and regulated its corporate governance and financial and accounting practices in accordance with the Company Law of the PRC, the Accounting Law of the PRC and other PRC laws and regulations;
- (v) we have established a confidentiality system and taken necessary steps to implement our duty of confidentiality. At the same time, we have established data security management policies and procedures and personal information protection policies and procedures to ensure our data security and compliance processing, and as advised by Tian Yuan Law Firm, as of the Latest Practicable Date, we had complied with all applicable requirements on cybersecurity and data protection as stipulated in the Draft Regulations for Comments in all material aspects; and
- (vi) the planned use of proceeds from the Global Offering is in compliance with the requirements of the relevant regulations of the PRC.

Furthermore, the Negative List requires that a domestic enterprise engaged in businesses which are prohibited from foreign investment must complete an examination process and obtain approval of the relevant PRC competent authorities when it seeks to issue and list its shares overseas. However, according to the National Development and Reform Commission's response at a press conference held on January 18, 2022, this requirement only applies to direct overseas listing of domestic companies, i.e. H-shares listings. Moreover, our businesses do not fall into the category of businesses prohibited from foreign investment as stipulated in the Negative List. Therefore, this requirement does not apply to our plan to list on the Stock Exchange utilizing contractual arrangements.

However, as advised by our PRC Legal Advisers, there are substantial uncertainties regarding the promulgation, implementation, interpretation and application of the Draft Regulations for Comments accordingly, and there can be no assurance that the regulations on overseas listing officially issued in the future will not have different contents from the Draft Regulations for Comments and that the PRC governmental authorities will not take a view that is different or otherwise contrary to the above opinion of our PRC Legal Advisers.

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Development in the PRC Legislation on Foreign Investment

Background of the FIL

On March 15, 2019, the NPC promulgated the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (the "FIL") and replaced effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law (外商投資法實施條例), which came into effect on January 1, 2020. After the FIL comes into effect, the FIL replaced the law on Sino-Foreign Equity Joint Ventures (《中外合資經營企業法》), the law on Sino-Foreign Contractual Joint Ventures (《中外合作經營企業法》) and the law on Foreign-Capital Enterprises (《外資企業法》) and became the legal foundation for foreign investment in the PRC. The FIL stipulates certain forms of foreign investment, but does not explicitly stipulate the contractual arrangements as a form of foreign investment.

The Potential Impact of the FIL on the Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of our Restricted Medical Institutions. As advised by our PRC Legal Advisers, since Contractual Arrangements are not specified as foreign investment under the FIL or the Implementation Regulations on the FIL, and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, then the possibility that the legal effectiveness of the Contractual Arrangements become materially adversely affected due to violation of the entry requirements under the FIL is relatively low.

Notwithstanding the above, the FIL stipulates that foreign investment includes "Foreign Investors invest in China through many other methods under laws, administrative regulations or provisions prescribed by the State Council". There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard Contractual Arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the Relevant Business will not be materially and adversely affected in the future due to changes in PRC laws and regulations. In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. For details, see "Risk Factors — Risks Relating To Our Corporate Structure" in this prospectus.

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Compliance with the Contractual Arrangements

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

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports and interim reports to update our Shareholders and potential investors; and
- (d) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of Shanghai Beauty Farm, Shanghai Liernuo and the Restricted Medical Institutions to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that Mr. Li is our Director, our Company believes that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

- (a) the decision-making mechanism of our Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of our Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;
- (c) our Company will appoint three independent non-executive Directors, comprising more than one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and the Shareholders as a whole; and

CONTRACTUAL ARRANGEMENTS

- (d) our Group will disclose in its announcements, circulars and annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

Accounting Aspects of the Contractual Arrangements

Under the Exclusive Operation Services Agreements, it was agreed that, in consideration of the services provided by Shanghai Beauty Farm, Shanghai Liernuo will pay service fees to Shanghai Beauty Farm. The annual service fees payable are determined with the services provided. The amount and payment deadline will be determined by Shanghai Beauty Farm and Shanghai Liernuo through arms' length negotiations after considering (i) the complexity and difficulty of the services provided by Shanghai Beauty Farm, (ii) the title of and time consumed by employees of Shanghai Beauty Farm providing the services, (iii) the contents and value of the services provided by Shanghai Beauty Farm, (iv) the market price of the same type of services, (v) the operation conditions of Shanghai Liernuo, and (vi) the essential cost, expenses, taxes and statutory reserve or retaining funds. Accordingly, through the Exclusive Operation Services Agreement, Shanghai Beauty Farm has the ability, at its sole discretion, to extract substantially the economic benefit of all Restricted Medical Institutions held by Shanghai Liernuo.

In addition, under the Exclusive Operation Services Agreements, Shanghai Beauty Farm has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of Shanghai Liernuo and the Restricted Medical Institutions as Shanghai Beauty Farm's prior written consent is required before any distribution can be made. In the event that Shanghai Liernuo and Mr. Li receive any profit distribution or dividend from the Restricted Medical Institutions, Shanghai Liernuo and Mr. Li must immediately pay or transfer all of such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company.

As a result of the aforementioned Contractual Arrangements, our Company has obtained control of the Restricted Medical Institutions through Shanghai Beauty Farm and, at our Company's sole discretion, can receive substantially all of the economic interest returns generated by the Restricted Medical Institutions. The operating profit generated from the Restricted Medical Institutions (not accounting for Group level cost and expenses) was approximately RMB232.3 million for the year ended December 31, 2021, representing 47.0% of Group's operating profit (not accounting for Group level cost and expenses) during the same period.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid prior to and immediately following the completion of the Global Offering:

<u>Authorized share capital</u>		<u>Aggregate par value</u>
		<i>(US\$)</i>
5,000,000,000	Shares of par value of US\$0.00001 each as of the Latest Practicable Date	50,000.00
<i>Immediately after the Share Split</i>		
10,000,000,000	Shares of par value of US\$0.000005	50,000.00
<i>Issued and to be issued, fully paid or credited as fully paid immediately upon completion of the Global Offering</i>		
206,185,568	Shares in issue as at the date of this prospectus (assuming all preferred shares are converted into ordinary Shares on a 1:1 basis and as adjusted after the Share Split)	1,030.93
24,395,500	New Shares to be issued under the Global Offering assuming no exercise of the Over-allotment Option	121.98
230,581,068	Total (assuming no exercise of the Over-allotment Option)	1,152.91

ASSUMPTION

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above table does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set forth in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company will have a single class of Shares upon completion of the Global Offering, namely ordinary shares, and each ranks pari passu with the other Shares. Pursuant to the Cayman Companies Law and the terms of the Amended and Restated Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, please refer to the section headed “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law” to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Global Offering; and
- (b) the nominal amount of our share capital repurchased by the Company (if any) pursuant to the repurchase mandate (as mentioned below).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders or upon the exercise of the Over-allotment Option.

This mandate to issue Shares will remain in effect until:

- (i) at the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest.

SHARE CAPITAL

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further Information about Our Group — 4. Resolutions of the Shareholders of the Company Passed on December 21, 2022” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the Global Offering (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option).

This mandate relates to repurchases made on the Stock Exchange, or on any other stock exchange which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — 5. Restrictions on Repurchase” in Appendix V to this prospectus.

This general mandate to repurchase Shares will remain in effect until:

- (a) at the conclusion of our next annual general meeting; or
- (b) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (c) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting, whichever is the earliest.

For further details of this general mandate, please see the paragraph headed “Statutory and General Information — A. Further Information about Our Group — 4. Resolutions of the Shareholders of the Company Passed on December 21, 2022” in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the following persons will have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

LONG POSITIONS IN THE SHARES OF OUR COMPANY

Name	Capacity/nature of interest ⁽¹⁾	Number of Shares held as of the Latest Practicable Date	Approximate percentage of shareholding in the total issued share capital of our Company as of the Latest Practicable Date	Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the Global Offering
Mr. Li	Interest in controlled corporation ⁽²⁾	1,000,000	0.97%	0.87%
	Adviser of a trust ⁽³⁾	17,780,000	17.25%	15.42%
Ms. Li	Interest jointly held with another person ⁽⁴⁾	38,710,000	37.55%	33.58%
	Adviser of a trust ⁽⁵⁾	21,200,000	20.56%	18.39%
Mr. Lian	Interest jointly held with another person ⁽⁴⁾	36,290,000	35.20%	31.48%
	Adviser of a trust ⁽⁶⁾	17,510,000	16.98%	15.19%
Niu Guifen	Interest jointly held with another person ⁽⁴⁾	39,980,000	38.78%	34.68%
	Interest jointly held with another person ⁽⁴⁾	57,490,000	55.77%	49.87%
Cui Yuanjun	Interest jointly held with another person ⁽⁴⁾	57,490,000	55.77%	49.87%
Yuan Huimin	Interest jointly held with another person ⁽⁴⁾	57,490,000	55.77%	49.87%
LIY Management ⁽³⁾	Beneficial owner	17,780,000	17.25%	15.42%
LIFY Management ⁽⁵⁾	Beneficial owner	21,200,000	20.56%	18.39%
Meiyao Holdings ⁽⁶⁾	Beneficial owner	17,510,000	16.98%	15.19%
BVI Xinyu Meiyao ⁽⁷⁾	Beneficial owner	37,040,000	35.93%	25.13%
Shanghai Xinzhi Yuyuan Enterprise Management Partnership (Limited Partnership) (上海信致鈺遠企業管理合夥企業(有限合夥), “Shanghai Xinzhi Yuyuan”) ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%

SUBSTANTIAL SHAREHOLDERS

Name	Capacity/nature of interest ⁽¹⁾	Number of Shares held as of the Latest Practicable Date	Approximate percentage of shareholding in the total issued share capital of our Company as of the Latest Practicable Date	Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the Global Offering
Shanghai Panxin Yanzhao Investment Consulting Co., Ltd. (上海磐信言釗投資諮詢有限公司, “Shanghai Panxin”) ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%
Beijing Xinyu ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%
Beijing Youde ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%
Shanghai Youde Equity Investment Center (Limited Partnership) (上海宥德股權投資中心(有限合夥), “Shanghai Youde”) ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%
Shanghai Panxin Mezzanine Investment Management Company Limited (上海磐信夾層投資管理有限公司, “Panxin Mezzanine”) ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%
Shanghai Pannuo Corporate Management Service Company Limited (上海磐諾企業管理服務有限公司, “Shanghai Pannuo”) ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%
CITIC PE ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%
CITIC Securities Company Limited (中信證券股份有限公司) ⁽⁷⁾	Interest in controlled corporation	37,040,000	35.93%	25.13%

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Li is interested in the entire share capital of LIY Holdings which holds 1,000,000 Shares in the Company.
- (3) Mr. Li is the power holder of Tiantian Trust and is able to exercise the voting rights of 17,780,000 Shares held by LIY Management, which is in turn owned as to 99.99% by LYBF Management Holdings Limited and is wholly owned by Tiantian Trust.

SUBSTANTIAL SHAREHOLDERS

- (4) Mr. Li, Ms. Li, Mr. Lian Niu Guifen, Cui Yuanjun and Yuan Huimin have entered into a concert party agreement to confirm that they have acted in concert in the management, decision-making and all major decisions of our Group, as such, each of them are deemed to be interested in the Shares each other is interested in. Our Controlling Shareholders are collectively interested in the voting rights of 57,490,000 Shares, representing 55.77% of the Company issued share capital.
- (5) Ms. Li is the power holder of Meimei Trust and is able to exercise the voting rights of 21,200,000 Shares held by LIFY Management, which is in turn owned as to 99.99% by LFYE Management Holdings Limited and is wholly owned by Meimei Trust.
- (6) Mr. Lian is the power holder of EffieA Trust and is able to exercise the voting rights of 17,780,000 Shares held by Meiyao Holdings, which is in turn owned as to 69.63% by LIANSY Family Holdings Limited and is wholly owned by EffieA Trust.
- (7) BVI Xinyu Meiye is interested in 37,040,000 Shares immediately prior to the Global Offering (representing approximately 35.93% of the total issued share capital of our Company) and 57,939,000 Shares will be held by BVI Xinyu Meiye immediately following completion of the Global Offering as 16,141,000 Sale Shares will be offered for sale under the International Offering. BVI Xinyu Meiye is wholly-owned by Shanghai Xinzhi Yuyuan, the general partner of which is Shanghai Panxin, a company directly owned as to 90% by Beijing Xinyu. Beijing Xinyu is also interested in more than 33.33% limited partnership interest in Shanghai Xinzhi Yuyuan. The general partner of Beijing Xinyu is Beijing Youde, whose general partner is Shanghai Pannuo. Shanghai Youde is interested in more than 33.33% limited partnership interest in Beijing Youde and is controlled by Shanghai Pannuo as its general partner. Panxin Mezzanine is interested in more than 33.33% limited partnership interest in Shanghai Youde.

Each of Panxin Mezzanine and Shanghai Pannuo is wholly-owned by CITIC PE, which is in turn owned as to 35% by CITIC Securities Company Limited, a company listed on both the Stock Exchange and the Shanghai Stock Exchange.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), have interests and/or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (each a “**Cornerstone Investment Agreement**”, and together the “**Cornerstone Investment Agreements**”) with the cornerstone investors set out below (each a “**Cornerstone Investor**”, and together the “**Cornerstone Investors**”), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe, or cause their designated entities (including qualified domestic institutional investor as approved by the relevant PRC authorities (“**QDII**”)) to subscribe, at the Offer Price for a certain number of Offer Shares that may be purchased for an aggregate amount of approximately US\$53.88 million (approximately HK\$419.2 million (the “**Cornerstone Placing**”).

Our Company is of the view that, the Cornerstone Placing will help to raise our profile and signify that such investors have confidence in the business and prospect of our Group, and will allow the Company to build and strengthen its industry network for potential strategic cooperation. Our Company became acquainted with each of the Cornerstone Investors through introduction by the Overall Coordinator, other market players or operation in the traditional beauty services and non-surgical aesthetic medical services industry.

Based on the Offer Price of HK\$19.32, the total number of Offer Shares to be subscribed by the Cornerstone Investors would be 21,697,000 Offer Shares, representing approximately (i) 53.52% of the Shares offered pursuant to the Global offering (assuming that the Over-allotment Option is not exercised), (ii) 9.41% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised); and (iii) 9.17% of our total issued share capital immediately upon completion of the Global Offering and the full exercise of the Over-allotment Option.

To the best knowledge of our Company, each of the Cornerstone Investors (and for Cornerstone Investors who will subscribe for our Offer Shares through a QDII, such QDII) (i) is an Independent Third Party and is not our connected person (as defined in the Listing Rules); (ii) is not accustomed to taking instructions from our Company, our subsidiaries, the Directors, chief executive, our Controlling Shareholders, substantial shareholders, existing Shareholders or any of their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Offer Shares; (iii) is not directly or indirectly financed by our Company, our subsidiaries, the Directors, chief executive, our Controlling Shareholders, substantial Shareholders, existing Shareholders or any of their respective subsidiaries or close associates; and (iv) is independent of other Cornerstone Investors.

To the extent that any Cornerstone Investor has engaged a QDII to subscribe for the relevant Offer Shares on its behalf, such Cornerstone Investor will procure the QDII to comply with the terms of its Cornerstone Investment Agreement in order to ensure the compliance of such Cornerstone Investor with its obligations under the Cornerstone Investment Agreement. For Cornerstone Investor whose shareholder are listed on any stock exchange, they have confirmed that no approval is required from the relevant stock exchange and their shareholders for entering into the investment contemplated under the applicable Cornerstone Investment Agreement.

CORNERSTONE INVESTORS

The Cornerstone Placing will form part of the International Offering and the Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be subscribed by the Cornerstone Investors will rank *pari passu* in all respect with the fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.08 of the Listing Rules. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will become a substantial shareholder of the Company, and the Cornerstone Investors will not have any Board representation in our Company. Other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price, the Cornerstone Investors do not have any preferential rights in the Cornerstone Investment Agreements compared with other public Shareholders. As confirmed by each of the Cornerstone Investors, their subscription under the Cornerstone Placing would be financed by their own internal resources. There are no side agreements or arrangements between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing.

The total number of Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the paragraph headed “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation and Clawback” in this Prospectus. The number of Offer Shares to be acquired by each Cornerstone Investor may be reduced on a pro rata basis in accordance with the terms of the Cornerstone Investment Agreement to satisfy the short fall, after taking into account the requirements under Appendix 6 to the Listing Rules and subject to the discretion of the Overall Coordinators (for themselves and on behalf of the International Underwriters) to exercise the Over-allotment Option.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement of our Company to be published on or around January 16, 2023. If there is over-allocation in the International Offering, the settlement of such over-allocation may be effected through delayed delivery of the Offer Shares to be subscribed by certain Cornerstone Investors under the Cornerstone Placing. Where delayed delivery takes place, each Cornerstone Investor that may be affected by such delayed delivery has agreed that it shall nevertheless pay for the relevant Offer Shares on or before 8 a.m. on the Listing Date. If there is no over-allocation in the International Offering, delayed delivery will not take place. As such, there will be no deferred settlement of the investment amount for the Offer Shares to be subscribed by the Cornerstone Investors pursuant to the Cornerstone Investment Agreements. For details of the Over-allotment Option, please refer to the paragraph headed “Structure of the Global Offering — Over-allotment Option” in this Prospectus.

CORNERSTONE INVESTORS

OUR CORNERSTONE INVESTORS

Set out below in the aggregate number of Offer Shares, and the corresponding percentages to the Offer Shares and our Company's total issued share capital under the Cornerstone Placing:

Based on the Offer Price of HK\$19.32

Based on the Offer Price of:	Investment Amount ¹	Number of Offer Shares (rounded down to nearest whole board lot of 500 Shares)	Approximately % of total number of Offer Shares		Approximate % of Shares in issue immediately following the completion of Global Offering	
			Assuming the Over-allotment Option is not exercised <i>(approximate)</i>	Assuming the Over-allotment Option is fully exercised <i>(approximate)</i>	Assuming the Over-allotment Option is not exercised <i>(approximate)</i>	Assuming the Over-allotment Option is fully exercised <i>(approximate)</i>
TruMed	US\$16,880,000	6,797,500	16.77%	14.58%	2.95%	2.87%
Botanee	US\$7,000,000	2,818,500	6.95%	6.05%	1.22%	1.19%
Juzi Holding	US\$10,000,000	4,027,000	9.93%	8.64%	1.75%	1.70%
Harvest	US\$20,000,000	8,054,000	19.87%	17.28%	3.49%	3.40%
Total	US\$53,880,000	21,697,000	53.52%	46.54%	9.41%	9.17%

Note:

- To be converted to Hong Kong dollars based on the applicable exchange rate under the respective Cornerstone Investment Agreement.

The following information about the Cornerstone Investors was provided to our Company by the Cornerstone Investors in relation to the Cornerstone Placing.

1. **TruMed Healthcare Master Fund and TruMed Health Innovation Fund LP (collectively, "TruMed")**

TruMed Healthcare Master Fund, incorporated in the Cayman Islands, is a healthcare focused pooled investment fund managed by the board of directors of TruMed Investment Management Limited, which comprises of Ms. Ting Wang and Ms. Weijia Jiang, Ms. Ting Wang is the ultimate beneficial owner of TruMed Investment Management Limited. TruMed Healthcare Master Fund has over 10 investors. Each of the investor holds less than 25% interest in TruMed Healthcare Master Fund.

TruMed Health Innovation Fund LP is an exempted limited partnership incorporated in the Cayman Islands and it is a pooled investment fund primarily investing in healthcare equities. It is managed by the board of directors of its general partner, TruMed Health Innovation Fund GP Limited, which comprises of Ms. Ting Wang, Ms. Wai Shan Wong and Ms. Vanessa Gilman. Ms. Ting Wang is the ultimate beneficial owner of TruMed Health Innovation Fund GP Limited. TruMed Health Innovation Fund LP has over 20 limited partners. Each of the limited partner holds less than 25% interest in TruMed Health Innovation Fund LP.

Ms. Ting Wang is the Founding Partner and Chief Investment Officer of the group of funds including the two funds participating in the cornerstone investment (“**TruMed Investment**”). Ms. Ting Wang is an experienced investment professional and previously worked with renowned funds and financial institutions, she is also an Independent Third Party.

2. Kunming Botanee Bio-technology Sales Co., Ltd.

Kunming Botanee Bio-technology Sales Co., Ltd. (昆明貝泰妮生物科技銷售有限公司, “**Botanee**”) is a company incorporated in the PRC with limited liability. It is a wholly-owned subsidiary of Yunnan Botanee Bio-technology Co., Ltd. (雲南貝泰妮生物科技集團股份有限公司). Established in 2010, Yunnan Botanee Bio-technology Group Co. Ltd, is a sizeable group in the healthcare industry integrating research, manufacturing and marketing functions and focusing on “skin and health care internet+”. The company was listed on the Shenzhen Stock Exchange (stock code: 300957) since March 2021. The Botanee group is dedicated to creating a skin health ecosystem in the PRC, and promoting the development of the skincare and general health industry in the PRC.

In 2020, the Botanee group has an asset value of RMB2.138 billion, sales of RMB2.636 billion, taxable income of RMB374 million and profit of RMB544 million. In the third quarter of 2021, the company realized sales of RMB2.113 billion, representing a year-on-year increase of 49.1%.

For the purpose of the cornerstone investment, Kunming Botanee Bio-technology Sales Co., Ltd. has engaged an asset manager which is a QDII to subscribe for or purchase and hold such Offer Shares on its behalf (as the beneficial owner of the QDII trust) on its discretionary basis.

3. Juzi Holding Co., Ltd

Juzi Holding Co., Ltd is incorporated under the laws of the BVI on July 27, 2021 and is wholly owned by Refulgence Holding Limited, holding indirectly approximately 58.60% of the issued share capital of Giant Biogene Holding Co., Ltd. 巨子生物控股有限公司 (“**Giant Biogene**”). Juzi Holding Co., Ltd is one of the controlling shareholders of Giant Biogene. Giant Biogene is a company incorporated in the Cayman Islands with limited liability and it is listed on the Main Board of the Stock Exchange (stock code: 2367) since November 2022. Giant Biogene is a leader in the bioactive ingredient-based professional skin treatment product industry in China.

4. Harvest International Premium Value (Secondary Market) Fund SPC acting on behalf of and for the account of Harvest Great Bay Investment SP (“Harvest”)

Harvest International Premium Value (Secondary Market) Fund SPC on behalf of Harvest Great Bay Investment SP is a fund established in February 2022. Harvest International Premium Value (Secondary Market) Fund SPC is a segregated portfolio company established in the Cayman Islands and is an Independent Third Party. 91% of the management shares of Harvest International Premium Value (Secondary Market) Fund SPC are held by Harvest Global Investments Limited (“**HGI**”) and 9% of the management shares are held by Harvest Global Capital Investments Limited (“**HGCI**”). Incorporated in Hong Kong in 2008, HGI is a wholly-owned subsidiary of Harvest Fund Management Co., Ltd (“**HFM**”). HFM is one of the first ten public fund management companies approved to be established within China. HGCI is a company incorporated in Hong Kong in 2011 and licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO in Hong Kong by the SFC. HGCI is principally engaged in asset management and investment advisory business. The participating shareholder of Harvest is Navigator Technology Limited (“**NTL**”), and the ultimate beneficial owner of NTL is Zheng Fuhua, an Independent Third Party.

CLOSING CONDITIONS

The obligation of each Cornerstone Investor to subscribe for the Offer Shares under the respective Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

- (i) the Underwriting Agreements being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Underwriting Agreements, and neither of the Underwriting Agreements having been terminated;
- (ii) the Offer Price having been agreed according to the Underwriting Agreements to be signed among the parties thereto in connection with the Global Offering;

CORNERSTONE INVESTORS

- (iii) the Listing Committee having granted the listing of, and permission to deal in, the Shares (including the Investor Shares as well as other applicable consents (as the case may be), waivers and approvals) and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (iv) no laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or the Cornerstone Investment Agreements and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (v) the respective representations, warranties, undertakings and confirmations of the relevant Cornerstone Investor under the relevant Cornerstone Investment Agreement are (as of the date of the respective Cornerstone Investment Agreement) and will be (as of the Listing Date) accurate and true in all respects or material respects (as the case may be) and not misleading or not misleading in any material respect (as the case may be) and that there is no material breach of the Cornerstone Investment Agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that it will not, whether directly or indirectly, at any time during the period of six months from and including the Listing Date (the “**Lock-up Period**”), dispose of any of the Offer Shares they have purchased pursuant to the relevant Cornerstone Investment Agreements, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board currently consists of eight Directors, comprising two executive Directors, three non-executive Directors and three independent non-executive Directors. Our Board is responsible for, and has general powers for, the management and conduct of our business.

The following table sets forth general information regarding our Directors:

Name	Position	Age	Date of appointment as Director	Time of joining our Group	Role and responsibilities	Relationship with other Directors and senior management
Mr. LI Yang (李陽)	Executive Director, chairman of the Board of Directors	63	February 10, 2022	January 2003	Responsible for overall management, business, and strategy of our Group and oversight of the commercial suitability and sustainability of our Group	Father of Ms. LI Fangyu
Mr. LIAN Songyong (連松泳)	Executive Director, chief executive officer, vice chairman of the Board of Directors	51	February 10, 2022	September 2015	Responsible for overall management of our Group, decision-making in respect of major matters such as overall strategies	None
Mr. ZHAI Feng (翟鋒)	Non-executive Director	55	February 10, 2022	December 2013	Responsible for decision-making in respect of major matters such as overall strategies	None
Mr. GENG Jiaqi (耿嘉琦)	Non-executive Director	51	February 10, 2022	December 2013	Responsible for decision-making in respect of major matters such as overall strategies	None
Ms. LI Fangyu (李方雨)	Non-executive Director	32	February 10, 2022	May 2016	Responsible for overall management, business, and strategy of our Group	Daughter of Mr. LI Yang
Mr. FAN Mingchao (范銘超)	Independent non-executive Director	44	March 24, 2022 (effective from the Listing Date)	March 2022	Providing independent advice and judgment to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

Name	Position	Age	Date of appointment as Director	Time of joining our Group	Role and responsibilities	Relationship with other Directors and senior management
Mr. LIU Teng (劉騰)	Independent non-executive Director	53	December 15, 2022 (effective from the Listing Date)	December 15, 2022	Providing independent advice and judgment to our Board	None
Mr. JIANG Hua (江華)	Independent non-executive Director	60	March 24, 2022 (effective from the Listing Date)	March 2022	Providing independent advice and judgment to our Board	None

The following sets forth the biographies of our Directors:

Executive Directors

Mr. LI Yang (李陽), aged 63, joined our Group in January 2003. He was appointed as our Director in February 2022 and was redesignated as our executive Director in March 2022, and as the chairman of our Board in March 2022. Mr. Li is primarily responsible for the overall management, business, and strategy of our Group and oversight of the commercial suitability and sustainability of our Group.

Prior to joining our Group, from April 1987 to March 1992, Mr. Li was the deputy general manager at Hainan Development Construction General Company (海南省開發總公司). From April 1992 to August 1996, he was the general manager at Hainan Real Estate Development General Company (海南省房地產總公司). Immediately prior to joining the Group, he was the deputy director at the State-owned Assets Management Office of Hainan Province (海南省國有資產管理辦公室).

Mr. Li has also served as a director for a number of our principal subsidiaries. Since August 2006, he has been an executive director of Shanghai Beauty Farm Development Co., Ltd. (上海美麗田園美容發展有限公司, “**Shanghai Beauty Farm Development**”) (PRC). Since April 2004, he has been the chairman of the board of Shanghai Beauty Farm. Since July 2010, he has been an executive director of Shanghai Yigao Industrial Co., Ltd. (上海逸高實業有限公司, “**Shanghai Yigao**”). Since November 2017, he has been an executive director of Shanghai Xiukeer Clinic Co., Ltd. (上海秀可兒門診部有限公司, “**Shanghai Xiukeer**”).

In May 1987, Mr. Li obtained his master’s degree in engineering from the Department of Electronic Engineering of RWTH Aachen University (亞琛工業大學) in Aachen, Germany.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LIAN Songyong (連松泳), aged 51, joined our Group as our director and general manager of Shanghai Beauty Farm in November 2015. Mr. Lian was appointed as our Director in February 2022 and was redesignated as our executive Director in March 2022, and as vice chairman of our Board in March 2022. He is primarily responsible for the overall management of our Group, and decision-making in respect of major matters such as overall strategies.

Mr. Lian has over ten years of experience in the cosmetics industry. Prior to joining our Group, from October 2004 to December 2008, Mr. Lian was the deputy general manager at Henan Plastic Surgery Hospital Co., Ltd. (河南整形美容醫院有限公司). From January 2009 to August 2015, he was the general manager at Beijing Mansimei Medical Technology Co., Ltd. (北京曼思美醫療技術有限公司).

Mr. Lian has also served in various roles for a number of our principal subsidiaries. Since September 2015, he has been the vice chairman of the board of directors and general manager of Shanghai Beauty Farm. He is also currently a manager of Shanghai Yigao and Shanghai Xiukeer.

Mr. Lian obtained his master's degree in business management from Tsinghua University (清華大學) in Beijing, PRC in January 2003.

Non-executive Directors

Mr. ZHAI Feng (翟鋒), aged 55, was appointed as our Director in February 2022 and was redesignated as our non-executive Director since March 2022. Mr. Zhai joined our Group in December 2013 as a director of Shanghai Beauty Farm. In this capacity, he is primarily responsible for formulating the Company's strategies and supervising the Company's operations and development.

Mr. Zhai has over 29 years of experience in investment and management industry. From July 1991 to November 2012, Mr. Zhai worked at Procter & Gamble (China) Sales Co. Ltd. (寶潔(中國)有限公司) with his last position as a president of sales in Greater China. Mr. Zhai was a managing director at Shanghai Panxin Mezzanine Investment Management Company Limited (上海磐信夾層投資管理有限公司) from January 2013 to December 2018. From October 2014 to July 2019, he served as director of Weihai Guangwei Composites Co., Ltd. (威海光威複合材料股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 300699). From December 2015 to March 2020, Mr. Zhai was a director of Shaanxi Tourism Culture Industry Holding Co. Ltd. (陝西旅遊文化產業股份有限公司) ("Shaanxi Tourism"), a company listed on the National Equities Exchange and Quotations Co., Ltd. (stock code: 870432). From June 2018 to January 2020, he served as director of Beijing Hualian Department Store Co., Ltd (北京華聯商廈股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 000882). Mr. Zhai has served as a director of CIIC Guanaitong (Shanghai) Technology Co., Ltd. (中智關愛通(上海)科技股份有限公司) (stock code: 871282), listed on the National Equities Exchange and Quotations Co., Ltd., since November 2016. Since August 2015, Mr. Zhai has been a director of Manpowergroup Greater China Limited, which is listed on the Stock Exchange (stock code: 2180), and was subsequently re-designated as a non-executive director in January 2019. Since September 2020, Mr. Zhai has been a director of Yonghe Medical Group Co., Ltd. (雍禾醫療集團有限公司), a hair transplant and treatment healthcare service provider

DIRECTORS AND SENIOR MANAGEMENT

which is listed on the Stock Exchange (stock code: 2279), and was subsequently re-designated as a non-executive director in June 2021. Mr. Zhai has been employed by companies affiliated with CITIC PE and does not participate in the day-to-day operations and management of the Group.

Mr. Zhai obtained his bachelor's degree in environmental engineering from Tongji University (同濟大學), the PRC, in July 1991.

Mr. Zhai was a director of Shaanxi Tourism Cultural Industry Development Co. Ltd (陝西旅遊文化產業發展股份有限公司), a company established in the PRC which was deregistered on June 30, 2016 as a result of merger by absorption by Shaanxi Tourism. Mr. Zhai was a director of Panxin Rongtai (Shanghai) Asset Management Co., Ltd. (磐信鎔泰(上海)資產管理有限公司), a company established in the PRC and was deregistered on January 29, 2019. Mr. Zhai confirmed that each of the above companies was solvent prior to its deregistration and was deregistered as it had not commenced business since establishment or had ceased to conduct business. He further confirmed that, as of the Latest Practicable Date, no claims have been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of the deregistration of each of the above companies.

Mr. GENG Jiaqi (耿嘉琦), aged 51, joined our Group in December 2013 and was subsequently appointed as our Director in February 2022 and was redesignated as our non-executive Director in March 2022. He is primarily responsible for decision-making in respect of major matters such as formulating overall strategies, hiring Company executives, advancing mergers and acquisitions, as well as managing corporate financing.

Mr. Geng has over 19 years of experience in investment and management industry. Since October 2020, Mr. Geng has been an investment director of Beijing Panmao Investment Management Co., Ltd. (北京磐茂投資管理有限公司). In addition, since September 2020, he has been a director of Yonghe Medical Group Co., Ltd. (雍禾醫療集團有限公司), a hair transplant and treatment healthcare service provider which is listed on the Stock Exchange (stock code: 2279), and was subsequently re-designated as a non-executive director in June 2021. Since September 2022, he has been a director of Inner Mongolia Prairie Red Sun Food Co., Ltd. (內蒙古草原紅太陽食品股份有限公司), a company primarily engaged in the R&D, production, and sale of condiments. Mr. Geng has been employed by companies affiliated with CITIC PE and does not participate in the day-to-day operations and management of the Group.

From April 2005 to August 2008, Mr. Geng was an investment manager at Actis Investment Beijing Representative Office (英聯投資北京代表處). From September 2008 to March 2010, Mr. Geng was a senior investment manager of Beijing Hony Future Investment Advisor Ltd. (北京弘毅遠方投資顧問有限公司). From December 2011 to December 2018, he was an investment director of Shanghai Panxin Equity Investment Management Limited (上海磐信股權投資管理有限公司). He was a director of Wangfujing Group Co., Ltd., (北京王府井百貨(集團)股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600859), from December 2016 to December 2019. From January 2019 to September 2020, Mr. Geng has also been an investment director of Tianjin Panmao Enterprise Management Limited Liability Partnership (天津磐茂企業管理合夥企業(有限合夥)).

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Mr. Geng obtained his bachelor's degree in accounting & finance and business administration & management from Oxford Brookes University, the United Kingdom, in 1996 and his master's degree in business administration from State University of New Jersey, the U.S., in January 2001.

Ms. LI Fangyu (李方雨) (with former name LI Fangqian (李芳芊)), aged 32, joined our Group as a business manager in May 2016. She was appointed as our Director in February 2022 and was redesignated as our non-executive Director in March 2022, and in this capacity she is primarily responsible for the overall management, business, and strategy of our Group and oversight of the commercial suitability and sustainability of our Group.

Ms. Li obtained her undergraduate degree in science majoring in management from the London School of Economics and Political Science (倫敦政治經濟學院) in London, United Kingdom in July 2012.

Independent Non-Executive Directors

Mr. FAN Mingchao (范銘超), aged 44, was appointed as our independent non-executive Director in March 2022 with his appointment taking effect upon Listing. He is responsible for providing independent advice and judgment to our Board.

Mr. Fan has over 15 years of experience in arbitration and institutional management. Prior to joining our Group, Mr. Fan has been a lecturer and an associate professor for over 10 years, and once served as the deputy director of the International Exchange Office at Shanghai University of Political Science and Law (上海政法學院), primarily responsible for teaching international private law, international commercial arbitration and other courses, as well as for the planning, design and implementation of international exchange projects. From February 2016 to June 2021, he was served as the Director of Arbitration and ADR for North Asia of the International Chamber of Commerce, and was the chief representative of its Shanghai Representative Office, primarily responsible for the promotion of ICC arbitration and ADR in 19 countries and regions, as well as for coordination with the ICC national and regional committees in the aforementioned jurisdictions. Since July 2021, he has been the general deputy director of the Shanghai Arbitration Commission (上海仲裁委員會). Since August 2019, he has served as chairman of the Arbitration Commission of the Chinese Football Association (中國足球協會仲裁委員會). He is also currently an arbitrator of the Court of Arbitration for Sports (國際體育仲裁院), the chairman of the Mainland China Committee of the Chartered Institute of Arbitrators (英國特許仲裁員學會中國大陸委員會) and a member of The Chartered Institute of Arbitrators.

Mr. Fan obtained his bachelor's degree in international law from East China University of Politics and Law (華東政法大學) in Shanghai, PRC in July 2000. He further obtained his master's degree in international commercial law from the University of Manchester in the United Kingdom in November 2002. He obtained his doctor's degree in international law from East China University of Politics and Law (華東政法大學) in Shanghai, PRC in December 2012.

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Mr. LIU Teng (劉騰), aged 53, was appointed as our independent non-executive Director on December 15, 2022 and is primarily responsible for supervising and providing independent advice to our Board.

Mr. Liu has extensive experience in financial management and investment banking. He worked at China Ping An Insurance (Hong Kong) Co., Ltd. from June 1999 to September 2007. He worked at Taikang Asset Management (Hong Kong) Company Limited from August 2008 to October 2010. He then worked as an executive director in China Orient International Asset Management Limited from February 2012 to March 2015. From October 2015 to September 2018, he worked at China Universal Asset Management (Hong Kong) Company Limited with his last position held as a deputy chief executive officer. Since September 2018, he has been the chairman and SFC licensed responsible officer at China Eagle Asset Management Limited, primarily responsible for overall investment research, compliance risk control, and financial operations.

Since December 2020, Mr. Liu has also been an independent non-executive director at Raily Aesthetic Medicine International Holdings, a medical beauty company listed on the Stock Exchange (stock code: 2135), where he is the chairman of the audit committee and a member of the remuneration committee.

Mr. Liu obtained a Master of Arts in Professional Accounting and Information Systems from the City University of Hong Kong in November 2004. He was admitted as a member of the Association of Chartered Certified Accountants in October 2006, and became a certified public accountant of Hong Kong Institute of Certified Public Accountants in February 2007.

Mr. JIANG Hua (江華), aged 60, was appointed as our independent non-executive Director in March 2022, with his appointment taking effect upon Listing. He is responsible for providing independent advice and judgment to our Board.

Mr. Jiang has over 30 years of experience in academics and plastic surgery. Prior to joining the Group, he was the director of plastic surgery at The Second Affiliated Hospital of the Second Military Medical University (第二軍醫大學第二附屬醫院) (currently known as Shanghai Changzheng Hospital (上海長征醫院)). Since 2019, Mr. Jiang has been a chief physician and professor at Shanghai East Hospital (上海市東方醫院).

Mr. Jiang received his bachelor's degree in clinical medicine from the Second Military Medical University of the Chinese People's Liberation Army (第二軍醫大學) in Shanghai, PRC in July 1985. He further received his postgraduate's degree in medicine from the National University of Singapore in Singapore in January 2000. Since May 1999, he has been certified as a qualified surgeon by the People's Liberation Army General Logistics Department.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, none of the Directors had held any directorships in listed companies during the three years immediately prior to the Latest Practicable Date, there is no other information in respect of the Directors to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules, and there is no other matter that needs to be brought to the attention of Shareholders or potential investors.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below sets out certain information in respect of the senior management (other than those whose information is already set forth in the section headed “Board of Directors” in this section) of our Group.

Name	Position	Age	Date of appointment as senior management	Time of joining our Group	Role and responsibilities	Relationship with other Directors and senior management
Mr. LI Yang (李陽)	Executive Director, chairman of the Board of Directors	63	March 24, 2022	January 2003	Responsible for overall management, business, and strategy of our Group and oversight of the commercial suitability and sustainability of our Group	Father of Ms. LI Fangyu
Mr. LIAN Songyong (連松泳)	Executive Director, chief executive officer, vice chairman of the Board of Directors, executive director	51	March 24, 2022	November 2015	Responsible for overall management of our Group, decision-making in respect of major matters such as overall strategies	None
Ms. ZHOU Min (周敏)	Chief financial officer, secretary of the Board of Directors, joint company secretary	53	March 24, 2022	March 2015	Responsible for financial planning of our Group	None

Mr. LI Yang (李陽), aged 63, is our executive Director and chairman of the Board of Directors. For details, see “— Board of Directors — Executive Directors” in this section.

Mr. LIAN Songyong (連松泳), aged 51, is our executive Director, vice chairman of the Board of Directors, and our chief executive officer. For details, see “— Board of Directors — Executive Directors” in this section.

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Ms. ZHOU Min (周敏), aged 53, joined our Group as our chief financial officer since March 2015 and has served as a joint company secretary since March 2021. She is primarily responsible for financial planning of our Group, including financial accounting and management of the Company's financial and legal affairs, merger and acquisitions, as well as management of various departments, such as the listing department.

Ms. Zhou has over 20 years of experience in financial management of chain enterprises, investment and acquisitions. Prior to joining our Group, Ms. Zhou Min served in the supermarket business department of Bailian Group Co., Ltd. as well as the head of the financial department of Lianhua Supermarket Holdings Co., Ltd. for more than ten years. Bailian Group Co., Ltd. was at the time listed on the Shanghai Stock Exchange (600827.SH), and Lianhua Supermarket Holdings Co., Ltd. is listed on the Stock Exchange (stock code: 980).

Ms. Zhou obtained her master's degree in business administration from the Arizona State University W.P. Carey School of Business (亞利桑那州立大學凱瑞商學院) in July 2013. Since December 2004, she has been a certified public accountant, recognized by the Provincial Department of Finance (省財政廳). Since April 2007, she has been certified as a senior accountant by the Provincial Human Resources and Social Security Department (省級人社部門). Since June 2009, Ms. Zhou has been certified as a tax agent by the State Administration of Taxation (國家稅務總局).

JOINT COMPANY SECRETARIES

Ms. ZHOU Min (周敏) was appointed as a joint company secretary of our Company on March 24, 2022. Ms. Zhou is also a member of the senior management of our Company. See "— Senior Management" in this section for her biographical details.

Ms. KWOK Siu Ying Sarah (郭兆瑩) was appointed as a joint company secretary of our Company on March 24, 2022. Ms. Kwok has joined Vistra Corporate Services (HK) Limited since July 2014 and now serves as a manager of corporate services. She has over seven years of experience in providing a full range of company secretarial and compliance services to a portfolio of clients including multinational corporations and private companies. She is currently the joint company secretary of Shanghai Bio-heart Biological Technology Co., Ltd., a company listed on the Stock Exchange (stock code: 2185) and Shanghai HeartCare Medical Technology Corporation Limited, a company listed on the Stock Exchange (stock code: 6609) and the company secretary of NVC International Holdings Limited, a company listed on the Stock Exchange (stock code: 2222).

Ms. Kwok obtained a Master of Corporate Governance from Hong Kong Metropolitan University (formerly The Open University of Hong Kong) and a Bachelor of Business Studies (Hons) in Marketing from University College Dublin, National University of Ireland. She has been an associate member of The Hong Kong Chartered Governance Institute (formerly The Hong Kong Institute of Chartered Secretaries) and an associate member of The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators) in United Kingdom since 2018. She is also an affiliate member of The Society of Trust and Estate Practitioners.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Our Board delegates certain responsibilities to various Board committees. In accordance with the relevant PRC laws and regulations, the Articles and the Listing Rules, we have established our audit committee, remuneration committee and nomination committee.

Audit Committee

We have established an audit committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of Mr. LIU Teng (劉騰), Mr. FAN Mingchao (范銘超) and Ms. LI Fangyu (李方雨), with Mr. LIU Teng (劉騰) being the chairperson of the committee.

The primary function of the audit committee is to assist our Board in providing an independent view of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board which includes, amongst other things:

- proposing to our Board the appointment and replacement of external audit firms;
- supervising the implementation of our internal audit system;
- liaising between our internal audit department and external auditors;
- reviewing our financial information and related disclosures; and
- other duties conferred by our Board.

Remuneration Committee

We have established a remuneration committee with terms of reference in compliance with paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of Mr. FAN Mingchao (范銘超), Mr. JIANG Hua (江華) and Mr. ZHAI Feng (翟鋒), with Mr. FAN Mingchao (范銘超) being the chairperson of the committee.

The primary function of the remuneration committee is to develop remuneration policies of our Directors, evaluate the performance, make recommendations on the remuneration packages of our Directors and senior management and evaluate and make recommendations on employee benefit arrangements which includes, amongst other things:

- establishing, reviewing and making recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management;

DIRECTORS AND SENIOR MANAGEMENT

- determining the terms of the specific remuneration package of each Director and members of senior management;
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time; and
- other duties conferred by our Board.

Nomination Committee

We have established a nomination committee with terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee consists of Mr. FAN Mingchao (范銘超), Mr. JIANG Hua (江華) and Mr. LIAN Songyong (連松泳), with Mr. FAN Mingchao (范銘超) being the chairperson of the committee.

The primary function of the nomination committee is to make recommendations to our Board in relation to the appointment and removal of Directors which includes, amongst other things:

- reviewing the structure, size and composition of our Board on a regular basis and making recommendations to our Board regarding any proposed changes;
- identifying, selecting or making recommendations to our Board on the selection of individuals nominated for directorships;
- assessing the independence of our independent non-executive Directors;
- making recommendations to our Board on relevant matters relating to the appointment, re-appointment and removal of our Directors; and
- other duties conferred by our Board.

CORPORATE GOVERNANCE

Board Diversity

We seek to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. We have adopted a board diversity policy (the “**Board Diversity Policy**”) to enhance the effectiveness of our Board and to maintain a high standard of corporate governance. Pursuant to the Board Diversity Policy, in reviewing and assessing suitable candidates to serve as a Director of the Company, our nomination committee will consider a range of diversity perspectives with reference to our Company’s business model and specific needs, including but not limited to gender, age, cultural and educational background and professional experience and

DIRECTORS AND SENIOR MANAGEMENT

knowledge. Furthermore, our nomination committee is responsible for reviewing the diversity of our Board, reviewing the Board Diversity Policy from time to time, developing and reviewing measurable objectives for implementing the Board Diversity Policy, and monitoring the progress on achieving these measurable objectives in order to ensure that the Board Diversity Policy remains effective.

Our Directors have a balanced mix of knowledge and skills, including but not limited to overall business management, finance and accounting, research and development, and investment. They obtained degrees in various majors including engineering, business management, science, accounting and finance, international law, and clinical medicine. Furthermore, as of the date of this prospectus, our Board consists of 6 male members and 1 female members with a relatively wide range of ages ranging from 32 years old to 63 years old. Our Company has reviewed the membership, structure and composition of our Board, and is of the opinion that the structure of our Board is reasonable, and the experience and skills of the Directors in various aspects and fields can enable our Company to maintain a high standard of operation.

Corporate Governance Code

Our Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the Corporate Governance Code. Our Company is committed to the view that our Board should include a balanced composition of executive directors, non-executive directors and independent non-executive directors so that there is a strong independent element on our Board, which can effectively exercise independent judgment.

EMOLUMENT OF DIRECTORS AND SENIOR MANAGEMENT

We offer our executive Directors and senior management members, who are also employees of our Company, emoluments in the form of salaries, allowances and benefits in kind, performance related bonuses, equity-settled share-based compensation expense and pension scheme contributions. Our Board will continue to review and determine the emolument packages of our non-executive Directors and independent non-executive Directors.

For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate amount of emoluments paid by our Company to our Directors were RMB2,870,000 (including RMB258,000 equity-settled share-based compensation expense), RMB1,754,000 (including RMB258,000 equity-settled share-based compensation expense), RMB4,381,000 (including RMB1,134,000 equity-settled share-based compensation expense) and RMB2,995,000, respectively.

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For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate amount of emoluments paid by our Company to the five highest paid individuals were RMB13,353,000, RMB23,110,000, RMB26,133,000 and RMB9,241,000 respectively. During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office in connection with the management of the affairs of our Company or any subsidiary during the Track Record Period.

During the Track Record Period, none of our Directors waived or agreed to waive any emolument. Except as disclosed above, no other payments have been paid, or are payable, by our Company or our subsidiary to our Directors or the five highest paid individuals during the Track Record Period.

COMPLIANCE ADVISER

We have appointed Haitong International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- a) before the publication of any announcements, circulars or financial reports required by regulatory authorities or applicable laws;
- b) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and securities repurchases;
- c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- d) where the Stock Exchange makes an inquiry of us regarding any unusual movement in the price or trading volume or any other issues under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute the annual report of the first full financial year commencing after the Listing pursuant to the Rule 13.46 of the Listing Rules.

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with the consolidated financial information together with the accompanying notes in the Accountant's Report included in Appendix I to this prospectus. Our historical financial information and the consolidated financial statements of our Group have been prepared in accordance with the HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Appendix I and not rely merely on the information contained in this section. Unless the context otherwise requires, historical financial information in this section is described on a consolidated basis.

The discussion and analysis set forth in this section contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this prospectus. Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this prospectus may be due to rounding.

OVERVIEW

We are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021. Our diversified service offerings cover traditional beauty services, aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services) as well as subhealth assessment and intervention services that are all personalized to serve our clients' health and beauty desire. We operate multiple chain brands in China's beauty and health management service industry, including BeautyFarm (美麗田園), our flagship brand established in 1993, and three other brands, namely, Palaispa (貝黎詩), Neology (研源) and CellCare (秀可兒). We have built a national direct store network, which consisted of 177 direct stores, including 84 stores in tier-one cities and 73 stores in new tier-one cities, as of June 30, 2022. In addition, our extensive national store network also included additional 175 stores operated by our franchisees as of the same date.

Our business grew continuously in 2019, 2020 and 2021. Our total revenue increased by 7.0% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020, and further increased by 18.5% to RMB1,780.7 million in 2021. Due to the adverse impact of Recurrence of COVID-19 in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022. We recorded a net profit of RMB147.4 million in 2019, RMB152.2 million in 2020, and RMB208.3 million in 2021 at a CAGR of 18.9% from 2019 to 2021. Excluding the effects of share-based compensation expenses and listing expenses, our adjusted profit (non-HKFRS measure) for the six months ended June 30, 2021 and 2022 would be RMB108.0 million and RMB50.6 million, respectively.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Growth of Beauty and Health Management Service Industry in China

We are primarily operating in China's traditional beauty services. According to Frost & Sullivan, driven by the increasing disposable income *per capita* of Chinese population and elevated self-awareness of appearance, the size of China's traditional beauty service market reached RMB403.2 billion in 2021, and is projected to grow at a CAGR of 5.3% to RMB640.2 billion in 2030. In addition, we have started to offer aesthetic medical services since 2011. The size of non-surgical aesthetic medical service market reached RMB97.7 billion in 2021, and is forecasted to reach RMB415.7 billion in 2030, with a CAGR of 17.5% from 2021 to 2030, according to the same source. As the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider with a market share of 0.2% and 0.6%, respectively, leveraging our brand awareness, nationwide store coverage and client base, we believe we are well-positioned to capture this industry trend. Additionally, supported by our proprietary in-house training system, digitalized platform and supply chain management, we are well-prepared for the recent and coming regulations and policies that aim to standardize the industry. In addition, we have started to offer subhealth assessment and intervention services since 2018, and the subhealth assessment and intervention service industry is forecasted to reach RMB29.0 billion in 2030. Likewise, with the potential growth in the subhealth assessment and intervention service industry, it can further improve our business operations and financial performance.

Store Network Expansion

Our direct stores are the contact points to provide services and win the trusts from our clients, and therefore the number of direct stores greatly correlates to our service revenue, across all service offerings. In addition, we generate franchise fees from each franchised store, and our sales of products to them, who will in turn sell to end customers, also bring in product sales revenue. As a result, the number of franchised stores also positively correlates to our franchise fees and product sales revenue.

We have grown our store network significantly since we commenced operations in 1993. As of June 30, 2022, our store network extended to 177 direct stores and 175 franchised stores nationwide. We experienced rapid expansion in recent years over major cities. We expanded our direct store count from 154 at the end of 2019 to 177 at the end of 2021, representing a CAGR of approximately 7.2%. Through organic growth and acquisitions, we had 177 direct stores nationwide including 84 stores in tier-one cities and 73 stores in new tier-one cities, as of June 30, 2022. Going forward, we will continue to identify and evaluate acquisition opportunities in high-quality stores to capture growth opportunities.

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Same-Store Sales Growth

We also closely track the revenue generated by our direct stores in the most recent accounting period relative to the revenue it generated in a similar period in the past, or same-store sales growth, to monitor how matured stores have performed over time. We see this also a useful metric to differentiate between revenue growth that comes from new stores and growth from improved operations at existing outlets.

Our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores can be categorized into three groups based on their respective opening date, namely newly-established stores (i.e., stores that have been established for less than three years), developing stores (i.e., stores that have been established for at least three years, but less than eight years) and matured stores (i.e., stores that have been established for at least eight years). As of June 30, 2022, we had 31 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in newly-established stage, 50 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in developing stage, and 73 established BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in matured stage. We, however, do not manage our CellCare (秀可兒) stores and Neology (研源) healthcare centers by stages. Instead, we only proceed to open a CellCare (秀可兒) store or a Neology (研源) healthcare center in a city where we see clear and sufficient demand for aesthetic medical services and subhealth assessment and intervention services from our existing traditional beauty service clients in the same city. For example, our CellCare (秀可兒) stores normally do not experience long ramp-up period, and form a large and loyal client base soon after opening.

We also endeavor to constantly improve the performance of our stores, by offering a variety of services with high value, improving store operation efficiency, and harvesting cross-selling opportunities through our existing service offerings. For example, we experienced same-store sales growth across all our service offerings in 2021, with same-store growth rate of CellCare (秀可兒) stores and Neology (研源) healthcare centers of 18.7% and 26.6%, respectively. For traditional beauty services, we also achieved faster same-store growth rate of 42.5% in newly established stores as compared with that of 20.3% and 18.2% in developing stores and matured stores, respectively. The following table sets forth details of our same-store sales and same-store growth rate by development stage during the Track Record Period.

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	Year ended December 31,		Year ended December 31,		Six months ended June 30,	
	2019	2020	2020	2021	2021	2022
Same store⁽¹⁾ sales						
(in thousands of RMB)						
Traditional beauty service stores						
– Newly-established stores ⁽²⁾	67,096	81,147	81,460	116,058	32,747	34,524
– Developing stores ⁽²⁾	250,899	236,720	220,446	265,141	122,700	106,574
– Matured stores ⁽²⁾	424,174	392,594	440,189	520,282	259,711	220,613
CellCare stores	434,012	516,808	555,301	658,935	338,634	272,929
Neology healthcare centers	36,900	32,144	34,438	43,592	22,699	19,183
Overall	1,213,081	1,259,413	1,331,834	1,604,008	776,491	653,823

Same-store growth rate

Traditional beauty service stores						
– Newly-established stores ⁽²⁾	20.9%		42.5%		5.4%	
– Developing stores ⁽²⁾	(5.7%)		20.3%		(13.1%)	
– Matured stores ⁽²⁾	(7.4%)		18.2%		(15.1%)	
CellCare stores	19.1%		18.7%		(19.4%)	
Neology healthcare centers	(12.9%)		26.6%		(15.5%)	
Overall	3.8%		20.4%		(15.8%)	

Notes:

- (1) Referring to stores that were open for more than 300 days in both of the two years under comparison or for more than 150 days in both of the six months under comparison.
- (2) The development stage of each same store during the years under comparison was its development stage as of the end of the first year.

Our stores generally have achieved growth during the Track Record Period. However, we experienced negative same-store growth rate across our developing and matured stores of traditional beauty service stores, CellCare stores and Neology healthcare centers, and may continue to experience negative same-store growth rate in the future. For more details of the relevant risks, see “Risk Factors — Risks Relating To Our Business and Industry — Risks Relating To Our Customers — We may not be able to maintain and increase the sales and profitability of our existing stores” in this prospectus.

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Service Mix

Our beauty and health management service offerings cover traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services that are all personalized to serve our clients' health and beauty desire. We first win client trust through our traditional beauty services, and then extend to more sophisticated services, such as aesthetic medical services and subhealth assessment and intervention services, across the full client lifecycle. Our clients have a long history of trusting our consistent service quality and brand characteristics, based on which some clients are attracted to purchase our aesthetic medical services and subhealth assessment and intervention services on a regular basis. With respect to our traditional beauty services, our direct store operation enjoys a gross margin profile different from that of our franchised stores. The revenue from franchised stores consists of sales of equipment and consumables as well as franchise fees, while the gross profit margin on sales of consumables and franchise fees is generally higher than that on sales of equipment.

In addition, our aesthetic medical services enjoy better gross profit margin than traditional beauty services by direct stores. Aesthetic medical services are in general a more lucrative service category than traditional beauty services, which can be reflected in the significantly higher price charged per each service session. One potential reason behind the relatively higher margin is the trust from our members and their willingness to purchase service packages with high value in pursuit of high quality services. Additionally, the different cost structure also contributes to the difference in gross margin. The cost of sales of traditional beauty services is largely composed of fixed staff costs and depreciation and amortization charges, and the service nature of traditional beauty services, which involves a relatively longer service period with the reliance on manual labor, also requires higher staff costs. By contrast, one of the largest cost of sales components of aesthetic medical services was product and consumable costs, which are only incurred when delivered to customers thus the costs are proportionate to client visit volume instead of fixed. Supported by our high operation efficiency, our business model is to only launch stores for aesthetic medical services when we see clear demand from our customers in traditional beauty services in the same city. For instance, in 2021, the gross profit margin of our aesthetic medical services was 57.4% as compared to 38.3% for our traditional beauty services by direct stores.

Ability To Control Our Costs and Expenses

Our results of operations and financial conditions depend on our ability to manage our costs and expenses. Our employees are the backbone of our high-quality services and rapid growth. It is each service personnel that delivers our services to clients face-to-face on a daily basis, and it is them that win the trust and confidence of our customers and lay the foundation of our continuous growth. In addition, we rely on other employees for selling and marketing, general and administrative and research and development purposes.

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During the Track Record Period, our staff costs constituted the largest component of our general and administrative expenses, selling expenses and research and development expenses, and the second or third largest component of our cost of sales and services. In 2019, 2020, 2021 and the six months ended June 30, 2022, our total staff costs (including those recorded in cost of sales and services, selling expenses, general and administrative expenses and research and development expenses) accounted for 38.7%, 38.7%, 40.2% and 45.3%, respectively, of our total revenue for the same periods. The number of our employees has been increasing along with the growth of our business, and the increases in the staff costs during the Track Record Period were primarily attributable to such increase in the headcount and increased compensation level in order to recruit and retain service personnel and other employees. We also continue our efforts in retaining our employees in cities and regions impacted by the COVID-19 and provide them with stable compensation. As we currently offer and plan to continue to offer competitive compensation to retain and attract qualified and experienced employee, our results of operations and financial conditions are significantly affected by our ability to manage our costs and expenses relating to our staff.

Meanwhile, products and consumables used constituted a major component of our cost of sales and services. The increases in our products and consumable used during the Track Record Period were in line with our business growth. Products and consumables used was RMB238.1 million, RMB276.8 million, RMB306.8 million and RMB125.0 million, representing 34.2%, 34.5%, 32.4% and 29.7% of our total cost of sales and services in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Furthermore, our profitability is dependent on our ability to manage our operating expenses. Overall, we expect that our operating expenses will increase in absolute amount in the near future as our business grows and as we make necessary adjustments to operate as a public company. At the same time, we expect to continue to see a decrease as a percentage of our revenue as we improve operating efficiencies and leverage our business scale. For instance, our selling expenses as a percentage of revenue dropped from 19.8% in 2019 to 18.0% in 2020 and further to 16.8% in 2021.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The historical financial information has been prepared under the historical cost convention, except for the revaluation of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are stated at fair value.

The preparation of the historical financial information in conformity with **HKFRS** requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 2 and Note 4 to the Accountant’s Report included in Appendix I to this prospectus.

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SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. We set out below some of the accounting policies and estimates that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements. Our significant accounting policies, judgments and estimates, which are important for understanding our financial condition and results of operations, are set out in further details in Note 2 and Note 4 to the Accountant's Report in Appendix I to this prospectus.

Significant Accounting Policies

Revenue Recognition

We are principally engaged in provision of traditional beauty services, aesthetic medical services and subhealth assessment and intervention services. Revenue comprises the fair value of the consideration received or receivable for the sales of products and services rendered in the ordinary course of our activities. Revenue is shown net of value-added tax, returns, refunds discounts and after eliminating sales within the Group.

Sales of Services

We sell prepaid card to end customers, which gives the right to end customers to redeem multiple services. Contract liabilities are recognized when we receive cash consideration from end customers. The total consideration is allocated to multiple performance obligations under the prepaid card based on their relative stand-alone selling prices.

Revenue is recognized when the services are rendered or the likelihood of the end customer exercising its remaining rights becomes remote. Based on the historical data, we determine no client interaction for 3 years as customer churn and recognize the unutilized packages in the prepaid card of these inactive end customers as revenue. We will assess the likelihood during each period and adjust the accounting estimates if applicable. When an inactive member returns after three years, the revenue previously recognized in relation to the unutilized packages in the inactive members' prepaid card will be reversed back to contract liabilities, and revenue will be recognized when the services are rendered subsequently. During the Track Record Period, the amount of revenue reversed for customers who had not received any services but had returned after 3 years was RMB0.8 million, RMB1.4 million, RMB2.2 million, and RMB1.6 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

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Frost & Sullivan is of the view that no expiration date for prepaid packages and no client interaction for 3 years as customer churn are in line with industry practice in the PRC. According to Frost & Sullivan, as traditional beauty services are regarded as a convenient approach for daily facial and body maintenance, the consumption frequency is significantly higher than that of surgical procedures provided by surgical beauty institutions. Traditional beauty service stores are likely to remind customers who have purchased prepaid cards but have not received any services during the relevant 12-month period. Therefore, the possibility for a customer who has not received any services but has returned after 3 years is remote.

As we have completed the requisite filing procedures relating to prepaid cards with competent authorities, the PRC Legal Advisers are of the view that our prepaid cards were sold in compliance with the relevant laws and regulations in China.

When there is a modification to the contract, for example, provision of additional distinct services to the end customer without any additional charge, we account for the modification prospectively. The contract consideration, which is the unrecognized consideration initially included in the transaction price of the contract before the modification, is allocated to the remaining performance obligations after the modification, including any unsatisfied performance obligations from the original contract.

Sales of Goods

We also generate revenue from sales of skincare products to customers. Revenue from the sale of skincare products is recognized when the products are accepted by the customers.

Franchise fee

We, as the franchisor, enter into franchise agreement with franchisee for 3 to 5 years. Franchise is a right to access license because we shall undertake activities that significantly affect the license, either positive or negative. Franchisee pays a fixed upfront fee and revenue from franchise fee is recognized over the franchise period. Training fees and other service fees are recognized when the services are rendered.

Goodwill

Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the city or region of business that

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goodwill is attributable to. For details of goodwill measurement, see Note 2.3 to the Accountant's Report in Appendix I to this prospectus.

Intangible Assets

Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognized at fair value at the acquisition date. One of the trademarks has an infinite useful life and is subsequently carried at cost less impairment losses. Those trademarks with finite useful life are subsequently carried at cost less accumulated amortization and impairment losses.

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortized using the straight-line method over their estimated useful lives.

Customer Relationships

Customer relationships, which are acquired during business combinations, are recognized at fair value at the acquisition date. Customer relationships are carried at cost less accumulated amortizations. Amortizations is calculated using the straight-line method over the expected useful lives.

Research and Development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and developing of new or improved products and processes) are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Amortization Methods and Periods

We amortize intangible assets with a limited useful life using the straight-line method over the following periods:

Trademarks with finite useful life	10 years
Software	10 years
Customer relationships	7-8 years

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Management estimated the useful life of the trademarks and software based on license period, expected technical obsolescence and innovations. Management estimated the useful life of customer relationships based on their industry knowledge, experience and judgment and took into account the historical customers renewal pattern of the acquired subsidiary. Therefore, the useful life for the customer relationships are 7 to 8 years.

Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by us. Contracts may contain both lease and non-lease components. We allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which we are a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by us under residual value guarantees;
- the exercise price of a purchase option if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects our exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or our incremental borrowing rate, the LPR rates when the leases were signed. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;

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- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If we are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

Fair Value Estimation of Financial Assets and Liabilities

We measure our financial assets at FVPL and FVOCI at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset either in the principal market for the asset, or in the absence of a principal market, in the most advantageous market for the asset. The principal or the most advantageous market must be accessible by the Group.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the Track Record Period.

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The changes in level 3 instruments during the Track Record Period are presented in Note 3.3 to the Accountant's Report set out in Appendix I to this prospectus.

During the Track Record Period, our financial assets at FVTPL represented wealth management products we purchased. These wealth management products comprised short-term and low-risk financial products issued by commercial banks and state-owned trust companies in China. As these instruments were not traded in active market, their fair values were determined based on the expected rate of return on our investment. As of December 31, 2019, 2020, 2021, and June 30, 2022, our financial assets at fair value through profit or loss was RMB358.9 million, RMB658.4 million, RMB926.3 million, and RMB709.7 million, respectively.

In relation to the valuation of our Group's financial assets measured at FVTPL categorized within level 3 of fair value measurement, our Group had (i) reviewed relevant agreements and supporting documents, including investment agreements, memorandum of associations, among others, to understand the detailed underlying terms and conditions that may affect the valuation of financial instruments; (ii) inquired of the wealth management product professionals about the expected return rates ; (iii) compared the expected rate of return against the historical rate of return of such wealth management products and (iv) conducted valuation analysis by recalculating the expected market value of the financial products. In addition, the finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values and carefully considers all information especially those non-market related information input, which requires management assessments and estimates. This team reports directly to the chief financial officer. Discussions of valuation processes and results are held between the chief financial officer and the valuation team at least once every six months, in line with the group's half-yearly reporting periods. For valuation processes in details, see Note 3.3 to the Accountant's Report set out in Appendix I to this prospectus. Based on the above-mentioned work, our management is satisfied with the categorization within level 3 of fair value measurement pursuant to the SFC's "Guidance note on directors' duties in the context of valuations in corporate transactions."

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 of the Accountant's Report in Appendix I to this prospectus which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on pages I-1 to I-3 of Appendix I to this prospectus.

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The Joint Sponsors have conducted the following independent due diligence work in relation to the level 3 fair value measurement: they (i) reviewed the relevant notes included in the Accountant's Report as contained in Appendix I to this prospectus; (ii) discussed with the Company on the primary factors taken into account by the Company, key assumptions and methodologies adopted for the valuation of the level 3 financial assets, and the internal control measures undertaken by the Company for reviewing and approving the relevant valuation; and (iii) discussed with the Reporting Accountant in respect of the work performed in relation to the valuation of the level 3 financial assets for the purpose of reporting on the historical financial information of the Group for the Track Record Period as a whole. Having considered the work done by the Directors and the Reporting Accountant as stated above, nothing has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the valuation analysis performed by the Company.

Having taken into account the work performed by the Company's management and the unqualified opinion on the Historical Financial Information, as a whole, of the Group issued by the Reporting Accountant included in Appendix I to this prospectus, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis and results performed by the Directors.

Critical Accounting Estimate

Impairment of Goodwill, Trademark With Infinite Useful Life

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our management conducted an impairment review on goodwill and trademark with infinite useful life. During the Track Record Period, the recoverable amount of cash-generating units ("CGUs") was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates. For details of impairment charge and key assumptions, see Note 21 to the Accountant's Report in Appendix I to this prospectus.

Revenue Recognized From Unutilized Prepaid Packages

Most of our services are sold on a prepaid basis and offer a variety of prepaid packages. When a customer prepaids for a service or product, the relevant payment is recorded as contract liabilities in balance sheets until we recognize revenue from the relevant prepaid package.

These prepayments give the customer a right to receive services or products in the future (and oblige us to stand ready to provide services or products). However, customers may not exercise all of their contractual rights for various reasons. Those expected unexercised rights are referred to as "forfeited income".

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The expected unexercised rights on prepaid packages are estimated by management based on historical customer behavior and usage pattern and are recognized as revenue when the customers are inactive for 3 years and the likelihood of the customer exercising its remaining rights become remote. Forfeited income will be recognized in the consolidated statements of comprehensive income. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we recognized the net forfeited income amounted to RMB10.2 million, RMB13.4 million, RMB15.0 million, RMB5.1 million and RMB11.7 million, respectively, represented less than 1.6% of our total revenue each year or period. For the six months ended June 30, 2022, our forfeited income as a percentage of total profit was relatively high. Such unusual percentage was primarily due to the significant decrease in our profit for the six months ended June 30, 2022, as a result of the Recurrence of COVID-19 in 2022, resulting in the decreased customer volume and store closures. In addition, we incurred share-based compensations of RMB6.4 million and listing expenses of RMB24.4 million, which resulted in the decrease in our profit for the six months ended June 30, 2022.

Current and Deferred Income Tax

We are subject to corporate income taxes in the PRC. Judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

Depreciation of Property, Plant and Equipment

Our management determines the estimated useful lives and related depreciation charges for our property, plant and equipment with reference to the estimated periods that we intend to derive future economic benefits from the use of these assets. Management performs periodic review of the estimated useful lives of property, plant and equipment, and will revise the depreciation charges where estimated useful lives are different than those previously estimated.

FINANCIAL INFORMATION

Fair Value Assessment of the Trademarks and Customer Relationships and the Recognition of Goodwill Arising From Business Combinations

Significant judgments and estimates were involved in the fair value assessment of the identified trademarks and customer relationships and the recognition of goodwill arising from business combinations. These significant judgments and estimates include the adoption of appropriate valuation methodologies and the use of key assumptions in the valuation (mainly annual revenue growth rate, gross profit margins, discount rates and expected useful lives of customer relationships).

Contractual Arrangement

Due to the regulatory restrictions on the foreign ownership of certain part of the listing business in the PRC, we do not have any legal equity interest in Shanghai Liernuo or the shares in the Medical Institutions held by Shanghai Liernuo. Our Directors assessed whether or not the Group has control over Shanghai Liernuo and the Medical Institutions by assessing whether it has the rights to variable returns from its involvement with Shanghai Liernuo and the Medical Institutions and has the ability to affect those returns through its power over Shanghai Liernuo and the Medical Institutions. After assessment, our Directors concluded that the Group has control over Shanghai Liernuo and the Medical Institutions as a result of the contractual arrangements and accordingly the financial position and the operating results of Shanghai Liernuo and the Medical Institutions can be included in the Group's consolidated financial statements. Nevertheless, the contractual arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shanghai Liernuo and the Medical Institutions and uncertainties presented by the PRC legal system could impede our beneficiary rights of the results, assets and liabilities of Shanghai Liernuo and the Medical Institutions. Our Directors consider that the contractual arrangements with Shanghai Liernuo, the Medical Institutions and their equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

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DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated:

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Revenue	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0
Cost of sales and services	(696,411)	(49.6)	(803,272)	(53.4)	(946,954)	(53.2)	(447,879)	(53.5)	(420,289)	(57.2)
Gross profit	708,341	50.4	700,024	46.6	833,786	46.8	388,951	46.5	314,029	42.8
Selling expenses	(277,973)	(19.8)	(270,521)	(18.0)	(299,464)	(16.8)	(130,338)	(15.6)	(120,236)	(16.4)
Research and development expenses	(9,142)	(0.7)	(12,670)	(0.8)	(18,029)	(1.0)	(7,751)	(0.9)	(14,992)	(2.0)
General and administrative expenses	(237,375)	(16.9)	(224,057)	(14.9)	(272,450)	(15.3)	(131,835)	(15.8)	(167,260)	(22.8)
Other income	15,985	1.1	11,646	0.8	20,727	1.2	12,338	1.5	17,515	2.4
Other expense	–	–	–	–	(3,481)	(0.2)	(1,774)	(0.2)	(1,698)	(0.2)
Other gains	2,768	0.2	6,888	0.5	18,252	1.0	9,960	1.2	9,459	1.3
Reversal of/(provision for) impairment losses on financial assets	4,571	0.3	2,015	0.1	(1,306)	(0.1)	(550)	(0.1)	230	–
Operating profit	207,175	14.7	213,325	14.2	278,035	15.6	139,001	16.6	37,047	5.0
Finance income	852	0.1	1,134	0.1	1,283	0.1	606	0.1	1,038	0.1
Finance costs	(28,264)	(2.0)	(25,928)	(1.7)	(24,216)	(1.4)	(12,325)	(1.5)	(12,045)	(1.6)
Finance costs — net	(27,412)	(2.0)	(24,794)	(1.6)	(22,933)	(1.3)	(11,719)	(1.4)	(11,007)	(1.5)
Profit before income tax	179,763	12.8	188,531	12.5	255,102	14.3	127,282	15.2	26,040	3.5
Income tax expenses	(32,340)	(2.3)	(36,346)	(2.4)	(46,761)	(2.6)	(22,175)	(2.6)	(6,191)	(0.8)
Profit for the year/period	147,423	10.5	152,185	10.1	208,341	11.7	105,107	12.6	19,849	2.7
Profit attributable to:										
Owners of the Company	140,329	10.0	150,959	10.0	193,475	10.9	96,947	11.6	15,123	2.1
Non-controlling interests	7,094	0.5	1,226	0.1	14,866	0.8	8,160	1.0	4,726	0.6
	147,423	10.5	152,185	10.1	208,341	11.7	105,107	12.6	19,849	2.7

FINANCIAL INFORMATION

NON-HKFRS MEASURE

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use non-HKFRS measure, namely, adjusted profit for the year or period, as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that such non-HKFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that such measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted profit may not be comparable to similarly titled measures presented by other companies. The use of such non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted profit for the year or period as profit for the year or period by adding back share-based compensation expenses and listing expenses. Share-based payment expenses are non-cash expenses arising from share awards granted to certain general management personnel and employees and do not result in cash outflow. Listing expenses are expenses in relation to the Listing and the Global Offering. We have made the adjustments consistently during the Track Record Period complying with Guidance Letter HKEX-GL103-19 issued by the Stock Exchange.

We therefore believe that these items should be adjusted for when calculating our adjusted net profit in order to provide potential investors with a complete and fair understanding of our core operating results and financial performance, so that they can assess our underlying core performance undistorted. The following table reconciles our net profit for the year or period presented to the most directly comparable financial measure calculated and presented under HKFRS:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Profit for the year/period	147,423	152,185	208,341	105,107	19,849
Adjustments:					
Share-based compensation expenses	1,592	6,988	6,290	2,852	6,419
Listing expenses	–	–	12,063	–	24,373
Adjusted profit (non-HKFRS measure) for the year/period	<u>149,015</u>	<u>159,173</u>	<u>226,694</u>	<u>107,959</u>	<u>50,641</u>

FINANCIAL INFORMATION

Revenue

Revenue by Service Offerings

We generate revenue primarily from three service offerings: (i) traditional beauty services to individual customers at our direct stores. Additionally, we earn franchise fees from our franchisees. In addition, to a much lesser extent, we generated revenue from sales of skincare products (including product sales to consumers in direct stores, and to franchisee stores and others); (ii) aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services); and (iii) subhealth assessment and intervention services. In addition, we earn cooperation fee in relation to subhealth assessment and intervention services. For details, see “Business — Our Services” in this prospectus. The following table sets forth a breakdown of our revenue by service offerings for the periods indicated:

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Traditional beauty services										
<i>Direct stores</i>										
– Services	717,358	51.1	680,727	45.3	857,295	48.2	391,244	46.7	352,654	48.1
– Product sales	42,468	3.0	76,281	5.1	84,062	4.7	31,979	3.8	30,390	4.1
<i>Subtotal</i>	<u>759,826</u>	<u>54.1</u>	<u>757,008</u>	<u>50.4</u>	<u>941,357</u>	<u>52.9</u>	<u>423,223</u>	<u>50.5</u>	<u>383,044</u>	<u>52.2</u>
<i>Franchisee and others</i>										
– Franchise fees	5,474	0.4	4,297	0.3	3,611	0.2	1,321	0.2	2,971	0.4
– Products sales ⁽¹⁾	110,513	7.8	86,805	5.7	101,816	5.7	44,668	5.3	42,027	5.7
<i>Subtotal</i>	<u>115,987</u>	<u>8.2</u>	<u>91,102</u>	<u>6.0</u>	<u>105,427</u>	<u>5.9</u>	<u>45,989</u>	<u>5.5</u>	<u>44,998</u>	<u>6.1</u>
Aesthetic medical services ⁽²⁾	464,586	33.1	564,076	37.5	673,025	37.8	338,634	40.5	275,556	37.5
Subhealth assessment and intervention services	64,353	4.6	91,110	6.1	60,931	3.4	28,984	3.5	30,720	4.2
Total	<u>1,404,752</u>	<u>100.0</u>	<u>1,503,296</u>	<u>100.0</u>	<u>1,780,740</u>	<u>100.0</u>	<u>836,830</u>	<u>100.0</u>	<u>734,318</u>	<u>100.0</u>

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Notes:

- (1) Included product sales to franchised stores amounted to RMB79.0 million, RMB66.6 million, RMB83.8 million and RMB32.8 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, as well as product sales to others (primarily include (i) product sales to or through Shanghai Luanmei, whose primary business is the operation of online stores on Tmall (天貓商城) as well as (ii) product sales in beauty exhibitions) amounted to RMB31.5 million, RMB20.2 million, RMB18.0 million and RMB9.2 million, for the same period.
- (2) During the Track Record Period, our revenue from non-surgical aesthetic medical services contributed 30.3%, 32.1%, 33.0% and 33.7% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. In addition to non-surgical aesthetic medical services, to a limited extent, our CellCare (秀可兒) stores also provided surgical aesthetic medical services during the Track Record Period that are classified as low-risk Grade I medical procedures according to the applicable laws and regulations, such as double eyelid construction, lipofilling and liposuction procedures, which contributed 2.8%, 5.5%, 4.8% and 3.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Revenue by Geographic Locations

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

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Tier-one cities ⁽¹⁾	829,035	59.0	854,725	56.9	1,036,208	58.2	493,605	59.0	362,478	49.4
New tier-one cities ⁽²⁾	352,972	25.1	387,540	25.8	498,795	28.0	230,614	27.5	267,895	36.5
Other cities ⁽³⁾	106,758	7.7	169,929	11.3	140,310	7.9	66,622	8.0	58,947	8.0
Franchisee and others	115,987	8.2	91,102	6.0	105,427	5.9	45,989	5.5	44,998	6.1
Total	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0

Notes:

- (1) Including Beijing, Shanghai, Guangzhou and Shenzhen. Our direct stores in tier-one cities during the Track Record Period were located in Beijing, Shanghai and Shenzhen.
- (2) Including Chengdu, Hangzhou, Chongqing, Xi'an, Wuhan, Nanjing, Tianjin, Zhengzhou, Changsha, Ningbo and Qingdao.
- (3) Including any other city that is not a tier-one city nor new tier-one city.

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Revenue by Brands

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

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
BeautyFarm (美麗田園)	675,978	48.1	696,252	46.4	855,966	48.1	381,809	45.6	351,977	48.0
Palaispa (貝黎詩)	83,848	6.0	60,756	4.0	85,391	4.8	41,414	4.9	31,067	4.2
CellCare (秀可兒)	464,586	33.1	564,076	37.5	673,025	37.8	338,634	40.5	275,556	37.5
Neology (研源)	64,353	4.6	91,110	6.1	60,931	3.4	28,984	3.5	30,720	4.2
Franchisee and others	115,987	8.2	91,102	6.0	105,427	5.9	45,989	5.5	44,998	6.1
Total	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0

Cost of Sales and Services

Our cost of sales and services primarily consists of (i) costs of products and consumables used, representing the costs of procuring skincare products, injection materials and other service consumables; (ii) staff costs, representing wages, benefits and bonuses for our business operation personnel; (iii) depreciation and amortization charges, which primarily include depreciation and amortization of lease premise and beauty equipment; and (iv) operation related expenses, which primarily include property management fees, rental expenses for short-term leases and costs for utilities. The following table sets forth a breakdown of our cost of sales and services by nature for the periods indicated:

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Products and consumables used	238,083	34.2	276,834	34.5	306,832	32.4	147,872	33.0	124,954	29.7
Staff costs	173,109	24.9	215,996	26.9	298,724	31.5	138,450	30.9	121,228	28.8
Depreciation and amortization charges	200,146	28.7	236,934	29.5	246,702	26.1	118,107	26.4	128,086	30.5
Operation related expenses	76,359	11.0	66,664	8.3	85,219	9.0	39,840	8.9	42,273	10.1
Others	8,714	1.2	6,844	0.8	9,477	1.0	3,610	0.8	3,748	0.9
Total	696,411	100.0	803,272	100.0	946,954	100.0	447,879	100.0	420,289	100.0

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Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less cost of sales and services. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our gross profit was RMB708.3 million, RMB700.0 million, RMB833.8 million, RMB389.0 million and RMB314.0 million, respectively. Gross profit margin represents our gross profit as a percentage of our revenue. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our gross profit margin was 50.4%, 46.6%, 46.8%, 46.5% and 42.8%, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by service offerings for the periods indicated:

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Traditional beauty services										
- Direct stores	327,376	43.1	278,473	36.8	360,621	38.3	155,921	36.8	119,542	31.2
- Franchisee and others	68,796	59.3	52,578	57.7	60,621	57.5	21,994	47.8	28,694	63.8
Aesthetic medical services	284,286	61.2	334,502	59.3	386,360	57.4	201,485	59.5	154,216	56.0
Subhealth assessment and intervention services	27,883	43.3	34,471	37.8	26,184	43.0	9,551	33.0	11,577	37.7
Total gross profit/overall gross profit margin	708,341	50.4	700,024	46.6	833,786	46.8	388,951	46.5	314,029	42.8

The following table sets forth a breakdown of our gross profit and gross profit margin by brands for the periods indicated:

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
BeautyFarm (美麗田園)	291,552	43.1	262,732	37.7	328,562	38.4	142,651	37.4	114,291	32.5
Palaispa (貝黎詩)	35,824	42.7	15,741	25.9	32,059	37.5	13,270	32.0	5,251	16.9
CellCare (秀可兒)	284,286	61.2	334,502	59.3	386,360	57.4	201,485	59.5	154,216	56.0
Neology (研源)	27,883	43.3	34,471	37.8	26,184	43.0	9,551	33.0	11,577	37.7
Franchisee and others	68,796	59.3	52,578	57.7	60,621	57.5	21,994	47.8	28,694	63.8
Total gross profit/overall gross profit margin	708,341	50.4	700,024	46.6	833,786	46.8	388,951	46.5	314,029	42.8

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During the Track Record Period, we experienced variation in our overall gross profit margin at 50.4%, 46.6%, 46.8%, 46.5% and 42.8%, in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Our traditional beauty services by direct stores represented one of the largest components of our service offerings. The gross profit margin of such services was fluctuated during the Track Record Period at 43.1%, 36.8%, 38.3%, 36.8% and 31.2% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, and such fluctuation led to the variation of our overall gross profit margin during the corresponding periods. For traditional beauty services by direct stores, we recorded a decrease in gross profit and gross profit margin from 2019 to 2020, primarily resulted from the outbreak of COVID-19 pandemic in 2020. In particular, our traditional beauty services were negatively affected due to the strict social distancing restrictions and temporary store closures in early 2020. Despite the decreased customer volume and store closures, we still continued to incur fixed costs such as staff costs, rental expenses and other operation related expenses, which consisted of over 50% of the total cost of sales and services. As a result, we recorded decreased gross profit margin in 2020. Similarly, we also recorded a decrease in gross profit and gross profit margin by brands of BeautyFarm (美麗田園) and Palaispa (貝黎詩). From 2020 to 2021, we recorded an increasing trend in gross profit and gross profit margin of traditional beauty services, primarily due to the continued business expansion. This increasing trend can also be reflected from our business growth in BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands. For example, we opened 13 BeautyFarm (美麗田園) stores and one Palaispa (貝黎詩) store in 2021. Correspondingly, our active members served as well as average spending per active member also increased. As a result, we achieved better operational efficiency resulting from economies of scale in relevant costs as well as depreciation and amortization charges in relation to rents. In 2022, due to the Recurrence, especially the strict lockdown in Shanghai, our traditional beauty services by direct stores as well as BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands, recorded a decrease in gross profit and gross profit margin from the six months ended June 30, 2021 to the six months ended June 30, 2022. In general, during the Track Record Period, our gross profit margin of franchised stores and others was significantly higher than that of direct stores given that (i) gross profit margin of sales of products (being the major component of revenue from franchised stores and others) were higher than that of sales of services (being the major component of revenue from direct stores) as nominal fixed costs such as staff costs, rental expenses, and operation related expenses were incurred and (ii) no corresponding costs were incurred in generating the franchise fees.

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For aesthetic medical services, our gross profit generally increased over years except during the period from the six months ended June 30, 2021 to the six months ended June 30, 2022. Such decrease in gross profit during the six months of 2022 was resulted from the negative impact of Recurrence as mentioned above. The overall increasing trend of gross profit over years in aesthetic medical services was primarily due to the business growth. However, we experienced a decrease in gross profit margin of aesthetic medical services during the Track Record Period. Our gross profit margin of aesthetic medical services decreased from 2019 to 2020, primarily because we offered an increasing number of injection services with discounts to attract new customers to try our services. Our gross profit margin of aesthetic medical services further decreased from 2020 to 2021, primarily due to the evolvement in product portfolio with increased popularity and acceptance in hyaluronic acid injection services, which have a relatively lower margin. For the six months ended June 30, 2022, our gross profit margin of aesthetic medical services further decreased due to the Recurrence as mentioned above.

For subhealth assessment and intervention services under Neology (研源), our gross profit and gross profit margin fluctuated over year or period. The gross profit margin of subhealth assessment and intervention services decreased from 2019 to 2020 because it generally takes time for store to ramp-up its performance, as a result, we incurred more costs as compared to revenue at initial stage of our subhealth assessment and intervention business. Our gross profit from subhealth assessment and intervention services decreased from 2020 to 2021, primarily due to the decrease in revenue resulted from less clients served. Since 2021, we also started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period. Our gross profit and gross profit margin from subhealth assessment and intervention services increased from the six months ended June 30, 2021 to the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. Going forward, we plan to further develop our traditional beauty services, including both direct stores and franchisee and others, continue to develop our aesthetic medical services and subhealth assessment and intervention services, and aim to provide a full-spectra of our beauty and health management services. For details of our results of operations, see “— Results of Operations” in this prospectus.

Selling Expenses

Our selling expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses for our in-house sales and marketing team; (ii) promotion and marketing expenses, primarily include service fees paid to the third-party marketing service providers and celebrities to promote our brands and services; (iii) travelling and office expenses incurred by our in-house sales and marketing team; (iv) miscellaneous expenses incurred to purchase refreshments to customers; and (v) others, primarily represent miscellaneous costs in relation to general sales and marketing activities. In particular, it primarily includes information and IT related service fees incurred in relation to operation and maintenance of the online customer platform and service charges for

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storage of products. The following table sets forth a breakdown of our selling expenses for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Staff costs	163,377	161,566	173,338	75,171	74,769
Promotion and marketing related expenses	33,132	24,426	33,433	13,181	13,588
Travelling and office expenses	32,366	30,807	31,433	13,799	8,458
Miscellaneous expenses related to customer services	19,191	22,655	25,211	9,883	8,664
Depreciation and amortization	8,931	8,443	11,089	6,334	7,503
Others	20,976	22,624	24,960	11,970	7,254
Total	<u>277,973</u>	<u>270,521</u>	<u>299,464</u>	<u>130,338</u>	<u>120,236</u>

Research and Development Expenses

Our research and development expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses for our research and development staff and (ii) depreciation and amortization charges. The following table sets forth a breakdown of our research and development expenses for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Staff costs	8,109	9,274	16,156	6,831	13,892
Depreciation and amortization charges	1,033	2,396	1,873	905	1,067
Others	-	1,000	-	15	33
Total	<u>9,142</u>	<u>12,670</u>	<u>18,029</u>	<u>7,751</u>	<u>14,992</u>

FINANCIAL INFORMATION

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) staff costs, representing share-based compensation expenses, wages, benefits and bonuses for our general and administrative staff; (ii) depreciation and amortization charges in relation to our properties and equipment; (iii) consulting and management expenses incurred in relation to audit services, legal services, IT and back office management system as well as other evaluation services; (iv) listing expenses; (v) reorganization costs. As part of the reorganization process before Listing, certain equity interests of our PRC operating entities were transferred from the equity holders of these PRC operating entities to a subsidiary under the Company and certain relevant expenses were incurred and borne by the Group. For details, see Note 9(a) to the Accountant's Report in Appendix I to this prospectus; and (vi) others, primarily include fees in relation to general and administrative purposes, such as property management fees and utility fees for office space; traveling and office expenses for those administrative staff; and transaction fees charged by the banks. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Staff costs	199,682	195,620	226,873	118,740	122,732
Listing expenses	-	-	12,063	-	24,373
Depreciation and amortization	13,547	11,476	12,043	5,800	6,314
Consulting and management expenses	10,576	6,951	9,913	2,351	4,019
Reorganization costs	-	-	-	-	7,279
Others	13,570	10,010	11,558	4,944	2,543
Total	<u>237,375</u>	<u>224,057</u>	<u>272,450</u>	<u>131,835</u>	<u>167,260</u>

FINANCIAL INFORMATION

Other Income

Our other income primarily consists of (i) government grants, representing short-term subsidies received from the local governments in connection with the business development, rewards for financial and employment contribution as well as tax refund; and (ii) rental income primarily derived from our owned properties in Hainan province. The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Government grants	10,315	9,756	12,624	8,763	13,687
Rental income	495	632	6,405	3,166	3,153
Interest income derived from amount due from related parties	994	-	-	-	-
Others	4,181	1,258	1,698	409	675
Total	15,985	11,646	20,727	12,338	17,515

Other Expenses

In 2021, six months ended June 30, 2021 and 2022, we incurred direct costs in relation to the rental income of RMB3.5 million, RMB1.8 million and RMB1.7 million, respectively, due to the depreciation charges for the investment properties.

FINANCIAL INFORMATION

Other Gains — Net

Our other gains primarily include net fair value on financial assets at FVPL, reflecting investment gains from wealth management products we purchased. Our other losses primarily include (i) net losses on disposal of property, plant, and equipment in relation to our service supplies and medical and beauty equipment; (ii) net foreign exchange losses; and (iii) losses on disposal of the subsidiaries. The following table sets forth a breakdown of our other net gains for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Net fair value gains on financial assets at FVPL	8,016	13,425	23,407	10,839	9,825
Net losses on disposal of property, plant and equipment	(2,158)	(3,882)	(2,640)	(188)	(470)
Net foreign exchange gains/(losses)	312	(460)	(225)	(129)	412
(Losses)/gains on disposal of the subsidiaries	(1,000)	310	-	-	-
Others	(2,402)	(2,505)	(2,290)	(562)	(308)
Total	<u>2,768</u>	<u>6,888</u>	<u>18,252</u>	<u>9,960</u>	<u>9,459</u>

FINANCIAL INFORMATION

Finance Costs — Net

Our finance costs include interest expenses on borrowings and interest expenses on lease liabilities. The following table sets forth a breakdown of our net finance costs for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Finance income					
Interest income on bank deposits	852	1,134	1,283	606	1,038
Finance costs					
Interest expenses					
– Interest charges on borrowings	(1,440)	(1,103)	(17)	(17)	–
– Interest charges for lease liabilities	(26,824)	(24,825)	(24,199)	(12,308)	(12,045)
	(28,264)	(25,928)	(24,216)	(12,325)	(12,045)
Finance costs — net	(27,412)	(24,794)	(22,933)	(11,719)	(11,007)

Income Tax Expenses

Our principal applicable taxes and tax rates are set forth as follows:

Mainland China

Our income tax expenses consist of current and deferred income taxes payable in the PRC by our subsidiaries. Income tax provision in respect of our 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 legislation and interpretations and practices in respect thereof. In addition, certain subsidiary in the PRC is eligible for preferential tax treatments such as the reduced rate of 15% for high and new technology enterprise during the Track Record Period. Other than the eligible subsidiaries, our other PRC operating entities are subject to standard income tax rate of 25%.

During the Track Record Period, we incurred income tax expenses of RMB32.3 million, RMB36.3 million, RMB46.8 million, RMB22.2 million and RMB6.2 million in 2019, 2020, 2021, and the six months ended June 30, 2021 and 2022, representing an effective tax rate of 18.0%, 19.3%, 18.3%, 17.4% and 21.2%, respectively. Our effective income tax rate is calculated by dividing income tax expenses by profit before income tax.

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Cayman Islands

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and, accordingly, are exempted from Cayman Islands income tax.

British Virgin Islands

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

Hong Kong

The provision for Hong Kong Profits Tax is subject to Hong Kong's two-tiered profits tax regime, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. The subsidiary in Hong Kong did not have any assessable profits during the Track Record Period.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared with Six Months Ended June 30, 2021

Revenue

Due to the Recurrence in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022.

Traditional Beauty Services — Direct Stores

Our revenue of traditional beauty services generated from direct stores decreased from RMB423.2 million for the six months ended June 30, 2021 to RMB383.0 million for the six months ended June 30, 2022, primarily attributable to the negative impact of Recurrence in 2022, which caused temporary store closures to certain of our direct stores in cities like Shanghai, Beijing and Changchun. To protect the health and well-being of our employees and clients and in support of the efforts to control the spread of the outbreak, we closed or reduced working hours of certain of our direct stores. As a result, the number of client visits decreased significantly in 2022. Since mid-June 2022, the majority of traditional beauty service direct stores in China have been operated under normal business hours.

Traditional Beauty Services — Franchisee and Others

Our revenue of traditional beauty services generated from franchised stores and others decreased from RMB46.0 million for the six months ended June 30, 2021 to RMB45.0 million for the six months ended June 30, 2022. Despite the expansion of our franchised store network, our revenue from products sales to franchise stores and others decreased

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for the six months ended June 30, 2022 primarily due to the Recurrence as the delivery of products from warehouses to franchise stores and others were delayed.

Aesthetic Medical Services

Our revenue of aesthetic medical services decreased from RMB338.6 million for the six months ended June 30, 2021 to RMB275.6 million for the six months ended June 30, 2022, primarily attributable to the negative impact of Recurrence in 2022, which caused temporary store closures to certain of our CellCare (秀可兒) stores, particularly in cities such as Shanghai, Changchun, Beijing and Shenzhen. As a result, the number of client visits decreased significantly for the six months ended June 30, 2022.

Subhealth Assessment and Intervention Services

Our revenue from subhealth assessment and intervention services increased from RMB29.0 million for the six months ended June 30, 2021 to RMB30.7 million for the six months ended June 30, 2022, primarily due to continued business expansion of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai and Beijing due to the Recurrence.

Cost of Sales and Services

Our cost of sales and services decreased from RMB447.9 million for the six months ended June 30, 2021 to RMB420.3 million for the six months ended June 30, 2022, primarily due to the decreases in products and consumables used and staff costs, both of which were related to the reduces in services provided resulted from the Recurrence. In addition, due to the fluctuation of exchange rate, the costs of overseas procurement for products and consumables decreased during the corresponding period. These decreases were partially offset by increases in (i) depreciation and amortization charges and (ii) operation related expenses, both of which were generally fixed in nature and increased as a result of the expansion of our store network.

Gross Profit and Gross Profit Margin

Our gross profit decreased from RMB389.0 million for the six months ended June 30, 2021 to RMB314.0 million for the six months ended June 30, 2022; our overall gross profit margin decreased from 46.5% for the six months ended June 30, 2021 to 42.8% for the six months ended June 30, 2022. These decreases were primarily due to the negative impact of the Recurrence in 2022, which caused temporary store closures in several cities such as Beijing, Shanghai, Xi'an, Shenzhen, and Changchun. In particular, our overall gross profit margin decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily because many stores experienced temporary closures while other fixed costs (such as staff costs, rental expenses and other operation related expenses) continued to incur during the corresponding period.

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Traditional Beauty Services — Direct Stores

Our gross profit of traditional beauty services generated from direct stores decreased from RMB155.9 million for the six months ended June 30, 2021 to RMB119.5 million for the six months ended June 30, 2022, primarily due to the negative impact of the Recurrence in 2022. In addition, our gross profit margin decreased from 36.8% for the six months ended June 30, 2021 to 31.2% for the six months ended June 30, 2022, primarily due to the similar reason. In particular, despite the temporary store closures, we still continued to incur fixed costs such as staff costs and rental expenses, which resulted in the decreased gross profit margin during the corresponding period.

Traditional Beauty Services — Franchisee and Others

Our gross profit of traditional beauty services generated from franchised stores and others increased from RMB22.0 million for the six months ended June 30, 2021 to RMB28.7 million for the six months ended June 30, 2022, primarily due to the increased number of franchisee we engaged. Specifically, our franchised stores increased from 160 in 2021 to 175 for the six months ended June 30, 2022. Due to the similar reason, our gross profit margin of traditional beauty services generated from franchised stores and others increased from 47.8% for the six months ended June 30, 2021 to 63.8% for the six months ended June 30, 2022. In particular, no corresponding costs were incurred in generating the franchise fees, which resulted in a higher gross profit margin during the corresponding period.

Aesthetic Medical Services

Our gross profit from aesthetic medical services decreased from RMB201.5 million for the six months ended June 30, 2021 to RMB154.2 million for the six months ended June 30, 2022; our gross profit margin from aesthetic medical services decreased from 59.5% for the six months ended June 30, 2021 to 56.0% for the six months ended June 30, 2022. These decreases were primarily due to the negative impact of the Recurrence in 2022 as some of our CellCare (秀可兒) stores experienced store closures in cities such as Beijing and Shanghai.

Subhealth Assessment and Intervention Services

Our gross profit from subhealth assessment and intervention services increased from RMB9.6 million for the six months ended June 30, 2021 to RMB11.6 million for the six months ended June 30, 2022; our gross profit margin from subhealth assessment and intervention services increased from 33.0% for the six months ended June 30, 2021 to 37.7% for the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. In addition, we opened a new Neology (研源) healthcare center in Shenzhen in September 2021, which further enhance our financial performance in subhealth assessment and intervention services.

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Selling Expenses

Our selling expenses decreased from RMB130.3 million for the six months ended June 30, 2021 to RMB120.2 million for the six months ended June 30, 2022, primarily due to decreases in staff costs, traveling and office expenses, miscellaneous expenses related to customer services, all of which were related to the impact of Recurrence.

Research and Development Expenses

Our research and development expenses increased from RMB7.8 million for the six months ended June 30, 2021 to RMB15.0 million for the six months ended June 30, 2022, primarily due to an increase in staff costs resulted from an increase in our research and development personnel as we continued our research and development efforts.

General and Administrative Expenses

Our general and administrative expenses increased from RMB131.8 million for the six months ended June 30, 2021 to RMB167.3 million for the six months ended June 30, 2022 primarily because we recorded RMB24.4 million listing expenses in relation to the Listing and the Global Offering in 2022.

Other Income

Our other income increased from RMB12.3 million for the six months ended June 30, 2021 to RMB17.5 million for the six months ended June 30, 2022, primarily due to an increase in government grants in relation to the VAT add-on deduction.

Other Gains — Net

Our other net gains remained relatively stable at RMB10.0 million and RMB9.5 million for the six months ended June 30, 2021 and 2022, respectively.

Finance Costs — Net

Our net finance costs remained relatively stable at RMB11.7 million and RMB11.0 million for the six months ended June 30, 2021 and 2022, respectively.

Income Tax Expenses

Our income tax expenses decreased significantly from RMB22.2 million for the six months ended June 30, 2021 to RMB6.2 million for the six months ended June 30, 2022, primarily due to the decrease in our profit before income tax resulted from the negative impact of the Recurrence in 2022.

Profit for the Period

As a result of the above, our net profit decreased significantly from 105.1 million for the six months ended June 30, 2021 to RMB19.8 million for the six months ended June 30, 2022.

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Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

Revenue

Our revenue increased by 18.5% from RMB1,503.3 million in 2020 to RMB1,780.7 million in 2021.

Traditional Beauty Services — Direct Stores

Our revenue of traditional beauty services generated from direct stores increased from RMB757.0 million in 2020 to RMB941.4 million in 2021, primarily due to the expansion of direct network and same-store sales growth. In particular, the numbers of BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores increased from 140 in 2020 to 154 in 2021, respectively. Corresponding with our continued sales and marketing efforts, the number of our active members for traditional beauty services increased significantly from 67,178 in 2020 to 75,548 in 2021 and the average spending per active member for traditional beauty services increased from RMB10,866 in 2020 to RMB11,843 in 2021. In addition, we have achieved robust same-store growth rate at 42.5% for newly-established stores, 20.3% for developing stores and 18.2% for matured stores during the corresponding period.

Traditional Beauty Services — Franchisee and Others

Our revenue of traditional beauty services generated from franchised stores and others increased from RMB91.1 million in 2020 to RMB105.4 million in 2021, primarily due to the expansion of our franchised store network. The number of franchised stores increased from 152 in 2020 to 160 in 2021. Additionally, as consumables and equipment used in franchised stores are purchased from us, we also benefited from the rapid recovery of service volume delivered at our franchised stores.

Aesthetic Medical Services

Our revenue from aesthetic medical services increased from RMB564.1 million in 2020 to RMB673.0 million in 2021, primarily due to (i) improvement of same-store sales from RMB555,301 in 2020 to RMB658,935 in 2021 with a same-store growth rate of 18.7% from 2020 to 2021; (ii) an increase in number of clients and active members obtaining aesthetic medical services. In particular, the number of client visits increased from 45,051 in 2020 to 52,962 in 2021, while the number of active members served increased from 14,291 in 2020 to 16,896 in 2021; and (iii) an increase in store number and continued store renovation. In 2021, to improve customer experience at CellCare (秀可兒) stores, we opened an additional CellCare (秀可兒) store and continued to renovate existing CellCare (秀可兒) stores. Furthermore, our traditional beauty service stores, including both direct stores and franchised stores, were also increased during the corresponding period, which enlarged our potential customer base.

Subhealth Assessment and Intervention Services

Our revenue from subhealth assessment and intervention services decreased from RMB91.1 million in 2020 to RMB60.9 million in 2021, primarily due to less clients served.

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Such decrease was partially offset by the business growth of subhealth assessment and intervention services in the corresponding period.

Cost of Sales and Services

Our cost of sales and services increased from RMB803.3 million in 2020 to RMB947.0 million in 2021, primarily due to (i) an increase in staff costs as a result of increases in salary and employee headcount for store network expansion; (ii) an increase in products and consumables used reflecting our business growth and increased service offerings; (iii) an increase in operation related expenses as a result of increases in property management fees and costs of utilities; and (iv) an increase in depreciation and amortization charges due to the increase in our leased premises resulted from our store network expansion.

Gross Profit and Gross Profit Margin

Our gross profit increased from RMB700.0 million in 2020 to RMB833.8 million in 2021; our overall gross profit margin remained relatively stable at 46.6% in 2020 and 46.8% in 2021. The increase in our overall gross profit primarily reflected our robust growth in traditional beauty services, which consisted of a large portion of our revenue during the corresponding period. However, our gross profit margin remained stable primarily because a large portion of our revenue was attributable from traditional beauty services, which have a relatively lower gross profit margin compared to that of other services. In addition, the relatively high margin aesthetic medical services grew at a slower rate compared to traditional beauty services.

Traditional Beauty Services — Direct Stores

Our gross profit of traditional beauty services generated from direct stores increased from RMB278.5 million in 2020 to RMB360.6 million in 2021, and the gross margin improved from 36.8% in 2020 to 38.3% in 2021. The margin expansion was mostly contributed to the economies of scale as 66 out of 154 stores entered into the stage of matured stores as of December 31, 2021, as compared to 57 out of 140 as of December 31, 2020. Although we adopted various marketing activities in promoting our services at a discounted price with relatively lower margin in 2021, our gross profit and gross profit margin still maintained an increasing trend due to the economies of scale in relevant costs as well as depreciation and amortization charges in relation to rents. In particular, the number of client visits increased significantly from 790,376 in 2020 to 993,235 in 2021. We believe our marketing efforts will gradually convert the promotional effects into profitable revenue with long-term benefit to our operations and financial performance.

Traditional Beauty Services — Franchisee and Others

Our gross profit of traditional beauty services generated from franchised stores and others increased from RMB52.6 million in 2020 to RMB60.6 million in 2021, and the gross profit margin remained relatively stable at 57.7% in 2020 and 57.5% in 2021. The increase in gross profit was primarily due to the increase in revenue in line with the franchisee business expansion.

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Aesthetic Medical Services

Our gross profit from aesthetic medical services increased from RMB334.5 million in 2020 to RMB386.4 million in 2021, while our gross profit margin decreased from 59.3% in 2020 to 57.4% in 2021. The decrease in gross profit margin was primarily due to the involvement in product portfolio with increased popularity and acceptance in hyaluronic acid injection services, which have a relatively lower margin.

Subhealth Assessment and Intervention Services

Our gross profit from subhealth assessment and intervention services decreased from RMB34.5 million in 2020 to RMB26.2 million in 2021, while our gross profit margin increased from 37.8% to 43.0%. The decrease in gross profit was primarily due to the decrease in revenue resulted from less clients served. In addition, we started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period.

Selling Expenses

Our selling expenses increased from RMB270.5 million in 2020 to RMB299.5 million in 2021, primarily due to (i) an increase in staff costs resulted from bonus increases and an increase in our marketing employee headcount to support our business expansion and (ii) an increase in marketing and promotion expenses, which was in line with our promotion strategies. In particular, due to emergence of live streaming marketing method, we have incurred more promotion and marketing related expenses in this regard.

Research and Development Expenses

Our research and development expenses increased from RMB12.7 million in 2020 to RMB18.0 million in 2021, primarily due to an increase in staff costs resulted from an increase in our research and development personnel.

General and Administrative Expenses

Our general and administrative expenses increased from RMB224.1 million in 2020 to RMB272.5 million in 2021, primarily because we recorded RMB12.1 million in relation to listing expenses in 2021. In addition, such increase in general and administrative expenses was also attributable to an increase in staff costs which was in line with our business expansion. We hired more employee for general administrative purposes during the corresponding period.

Other Income

Our other income increased from RMB11.6 million in 2020 to RMB20.7 million in 2021, primarily due to (i) an increase in government grants from the local governments to support our business expansion and (ii) an increase in rental income derived from the owned properties in Hainan province.

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Other Gains — Net

Our other net gains increased from RMB6.9 million in 2020 to RMB18.3 million in 2021 primarily due to the investment gains from wealth management products we purchased.

Finance Costs — Net

Our net finance costs decreased from RMB24.8 million in 2020 to RMB22.9 million in 2021, primarily due to a decrease in interest expenses on our bank borrowings as we repaid certain amount of our bank borrowings in 2021.

Income tax Expenses

Our income tax expenses increased from RMB36.3 million in 2020 to RMB46.8 million in 2021, reflecting the growth of our profit before taxation.

Profit for the Year

As a result of the above, our net profit increased from RMB152.2 million in 2020 to RMB208.3 million in 2021.

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Revenue

Despite the impact of the outbreak of COVID-19 pandemic in 2020, our total revenue still increased by 7.0% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020.

Traditional Beauty Services — Direct Stores

Our revenue of traditional beauty services generated from our direct stores slightly decreased from RMB759.8 million in 2019 to RMB757.0 million in 2020. Strict social distancing restrictions and temporary store closures were imposed after the COVID-19 emerged in early 2020. This significantly restricted our ability to provide face-to-face services to our clients, and some customers remained hesitant to have in-person services such as spas or massages even after the restrictions were relaxed or lifted. These led to the decrease of revenue of traditional beauty services from our direct stores, though partially offset by our active efforts in promotion through live streaming during the highly restricted period. Due to the continued promotion efforts, as a result, our total visits and average spending started to increase since April 2020, in particular, our total number of client visits increased from 771,078 in 2019 to 790,376 in 2020 as the nationwide COVID-19 pandemic came under control in China.

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Traditional Beauty Services — Franchisee and Others

For the similar reasons above about our direct stores, our revenue of traditional beauty services generated from our franchised stores and others decreased from RMB116.0 million in 2019 to RMB91.1 million in 2020.

Aesthetic Medical Services

Our revenue from aesthetic medical services increased from RMB464.6 million in 2019 to RMB564.1 million in 2020. We managed to achieve rapid increase in our aesthetic medical services in 2020 in spite of the nationwide COVID-19 pandemic because of the low elasticity of customers' demand of such services — clients who did not receive the service during the COVID-19 restriction of mobility and social interaction would mostly seek the service once the restriction is lifted. The number of our active members increased from 12,683 in 2019 to 14,291 in 2020, and concurrently, the average spending per active member increased from RMB36,631 in 2019 to RMB39,471 in 2020.

Subhealth Assessment and Intervention Services

Our revenue from subhealth assessment and intervention services increased from RMB64.4 million in 2019 to RMB91.1 million in 2020. Such increase was mainly because we started to ramp up our subhealth assessment and intervention services around mid-year of 2019, correspondingly, the number of our active members for subhealth assessment and intervention services increased significantly from 1,895 in 2019 to 3,305 in 2020.

Cost of Sales and Services

Our cost of sales and services increased from RMB696.4 million in 2019 to RMB803.3 million in 2020, primarily due to (i) an increase in staff costs as a result of increases in salary and employee headcount for store network expansion; (ii) an increase in products and consumables used reflecting our business growth; and (iii) an increase in depreciation and amortization charges due to the increase in our leased premises resulted from our store network expansion.

Gross Profit and Gross Profit Margin

Our overall gross profit slightly decreased from RMB708.3 million in 2019 to RMB700.0 million in 2020; our overall gross profit margin decreased from 50.4% in 2019 to 46.6% in 2020. Such decreases in overall gross profit and gross profit margin were primarily due to the negative impact of the outbreak of COVID-19 pandemic in 2020, which offset our continued business growth across the three service offerings. In particular, our overall gross profit margin decreased from 2019 to 2020, primarily due to many of our service stores, including BeautyFarm (美麗田園), Palaispa (貝黎詩) and CellCare (秀可兒) stores, experienced temporary closures while other fixed costs (such as staff costs, rental expenses and other operation related expenses) continued to incur during the corresponding period.

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Traditional Beauty Services — Direct Stores

Our gross profit of traditional beauty services generated from direct stores decreased from RMB327.4 million in 2019 to RMB278.5 million in 2020 as a result of the decrease in revenue. The gross profit margin also dropped accordingly from 43.1% to 36.8% as we started to offer service packages at discounted prices through online marketing channels during the COVID-19 pandemic to promote our services.

Traditional Beauty Services — Franchisee and Others

Our gross profit of traditional beauty services generated from franchised stores and others decreased from RMB68.8 million in 2019 to RMB52.6 million in 2020, and the gross profit margin decreased from 59.3% to 57.7%. These decreases were primarily because we offered discounts to franchisees to support their business during this period.

Aesthetic Medical Services

Our gross profit from aesthetic medical services increased from RMB284.3 million in 2019 to RMB334.5 million in 2020 as a result of our growing revenue. The gross profit margin decreased from 61.2% in 2019 to 59.3% in 2020 because we offered an increasing number of injection services with discounts to attract new customers to try our services.

Subhealth Assessment and Intervention Services

Our gross profit from subhealth assessment and intervention services increased from RMB27.9 million in 2019 to RMB34.5 million in 2020, primarily due to the growth of our business. The gross profit margin decreased from 43.3% in 2019 to 37.8% in 2020 primarily because we incurred more costs (for example, staff costs in hiring relevant employees) as compared to the revenue at initial stage of our subhealth assessment and intervention business.

Selling Expenses

Our selling expenses decreased from RMB278.0 million in 2019 to RMB270.5 million in 2020, primarily due to (i) a decrease in staff costs due to the reduced social security contributions in connection with the temporary reduction and exemption of social security contributions during the COVID-19 pandemic in 2020 and (ii) a decrease marketing and promotion expenses as we had less offline marketing activities due to the impact of the COVID-19 pandemic.

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Research and Development Expenses

Our research and development expenses increased from RMB9.1 million in 2019 to RMB12.7 million in 2020, primarily due to (i) an increase in staff costs resulted from the increase in employee headcount for research and development purposes and (ii) an increase in depreciation and amortization charges.

General and Administrative Expenses

Our general and administrative expenses decreased from RMB237.4 million in 2019 to RMB224.1 million in 2020, primarily due to (i) a decrease staff costs due the reduced social security contributions in connection with the temporary reduction and exemption of social security contributions during the COVID-19 pandemic in 2020; (ii) a decrease in consulting management fees due to the decreased legal, audit and IT related services for this period; and (iii) a decrease in depreciation and amortization due to the temporary reduction of rent payments during the COVID-19 pandemic.

Other Income

Our other income decreased from RMB16.0 million in 2019 to RMB11.6 million in 2020, primarily due to a decrease in government grants, which were occasional events and were varied from period to period. In addition, we did not incur interest income derived from amount due from related parties during the corresponding period.

Other Gains — Net

Our net other gains increased from RMB2.8 million in 2019 to RMB6.9 million in 2020 primarily due to the net fair value gains from the wealth management products we purchased.

Finance Costs — Net

Our net finance costs decreased from RMB27.4 million in 2019 to RMB24.8 million in 2020, primarily due to an increase in interest income on bank deposits.

Income Tax Expenses

Our income tax expenses increased from RMB32.3 million in 2019 to RMB36.3 million in 2020 in line with our growth profit.

Profit for the Year

As a result of the above, our net profit increased from RMB147.4 million in 2019 to RMB152.2 million in 2020.

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DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2022</i> <i>RMB'000</i>
ASSETS				
Non-current assets				
Property, plant and equipment	307,943	217,443	259,504	264,733
Investment properties	–	78,114	74,538	72,840
Right-of-use assets	551,527	466,467	451,795	464,145
Intangible assets	78,337	90,344	90,251	85,749
Goodwill	152,268	176,057	194,273	191,537
Prepayments, deposits and other receivables	42,327	46,823	55,279	55,361
Other non-current assets	3,887	5,074	7,103	5,317
Financial assets at fair value through other comprehensive income	182	179	74	–
Deferred income tax assets	26,265	35,950	35,015	47,294
Total non-current assets	<u>1,162,736</u>	<u>1,116,451</u>	<u>1,167,832</u>	<u>1,186,976</u>
Current assets				
Inventories	77,158	65,349	97,250	117,428
Trade receivables and notes receivables	30,316	36,699	31,316	34,380
Prepayments, deposits and other receivables	84,700	82,764	87,038	180,054
Financial assets at fair value through profit or loss	358,898	658,387	926,338	709,736
Restricted cash	–	–	10,254	10,270
Cash and cash equivalents	104,819	143,538	157,284	149,696
Total current assets	<u>655,891</u>	<u>986,737</u>	<u>1,309,480</u>	<u>1,201,564</u>
Total assets	<u>1,818,627</u>	<u>2,103,188</u>	<u>2,477,312</u>	<u>2,388,540</u>

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	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY				
Share capital	–	–	–	7
Treasury stock	–	–	–	–*
Share premium	–	–	–	84,358
Other reserves	(3,164)	7,452	65,439	(7,205)
Retained earnings	50,502	133,421	191,924	87,047
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Equity attributable to owners of the Company	47,338	140,873	257,363	164,207
Non-controlling interests	5,417	(165)	5,173	16,251
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total equity	<u>52,755</u>	<u>140,708</u>	<u>262,536</u>	<u>180,458</u>
LIABILITIES				
Non-current liabilities				
Borrowings	6,370	–	–	–
Lease liabilities	430,100	367,943	352,279	358,328
Deferred tax liabilities	2,946	6,218	8,744	10,027
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total non-current liabilities	<u>439,416</u>	<u>374,161</u>	<u>361,023</u>	<u>368,355</u>
Current liabilities				
Trade payables	30,022	17,820	15,436	29,304
Other payables and accruals	164,680	162,924	215,062	158,451
Contract liabilities	914,730	1,155,062	1,347,685	1,387,521
Current tax liabilities	28,448	34,505	31,876	26,032
Borrowings	12,740	6,370	–	–
Lease liabilities	119,780	141,377	163,181	155,427
Other current liabilities	56,056	70,261	80,513	82,992
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current liabilities	<u>1,326,456</u>	<u>1,588,319</u>	<u>1,853,753</u>	<u>1,839,727</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,765,872</u>	<u>1,962,480</u>	<u>2,214,776</u>	<u>2,208,082</u>

* Less than RMB1,000

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Property, Plant and Equipment

Our property, plant and equipment primarily consist of leasehold improvements, beauty equipment, buildings, construction in progress, electronic equipment and vehicles. Our property, plant and equipment decreased from RMB307.9 million as of December 31, 2019 to RMB217.4 million as of December 31, 2020 primarily due to the amounts transferred to investment properties. Our property, plant and equipment increased from RMB217.4 million as of December 31, 2020 to RMB259.5 million as of December 31, 2021, primarily due to the additions of leasehold improvements and beauty equipment in our newly opened stores, as well as the renovation of our existing stores. Our property, plant and equipment increased from RMB259.5 million as of December 31, 2021 to RMB264.7 million as of June 30, 2022, primarily due to leasehold improvements for our stores.

Right-of-Use Assets

Our right-of-use assets represent leases of our stores and office space. Our right-of-use decreased from RMB551.5 million as of December 31, 2019 to RMB466.5 million as of December 31, 2020 and further to RMB451.8 million as of December 31, 2021, primarily due to depreciation of right-of-use assets and amounts transferred to investment properties, partially offset by the new leases we entered into during the corresponding period. Our right-of-use increased from RMB451.8 million as of December 31, 2021 to RMB464.1 million as of June 30, 2022, primarily due to (i) the new leases we entered into, which was in line with our business expansion and (ii) the renewal of our existing leases.

Goodwill

We recognized goodwill during our acquisition of Palaispa (貝黎詩) stores as well as other stores. As of December 31, 2019, 2020, 2021 and June 30, 2022, our goodwill was RMB152.3 million, RMB176.1 million, RMB194.3 million, and RMB191.5 million. Such goodwill represents the excess of the aggregate of the consideration transferred, the non-controlling interests in these stores after our acquisition and the fair value of our equity interests in these stores held prior to our acquisition (if any) over the identifiable net assets of these stores.

We do not amortize goodwill, but we assess our goodwill for impairment at least on an annual basis, or more frequently if events or changes in circumstances indicate that our goodwill may be impaired. We allocate our goodwill to four separate cash-generating units for the purpose of impairment testing, namely Palaispa (貝黎詩) stores as well as stores in Shanghai, Chongqing and other cities. We assess the recoverable amount of each cash-generating unit with cash flow projections derived from the financial plans and budgets and the applicable pre-tax discount rates as determined by our senior management for the respective stores. Impairment losses on goodwill are recognized when the recoverable amount of any cash-generating unit is assessed to be less than its carrying value. We did not incur any impairment losses on goodwill during the Track Record Period. The following table sets forth key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill and intangible assets of customer relationships and trademark with infinite useful life as of December 31, 2019, 2020, 2021 and June 30, 2022.

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We involved an independent qualified valuer to perform impairment test applying “value-in-use” method as at December 31, 2019, 2020, 2021 and June 30, 2022 by using the discounted cash flow model. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews. The forecast period is 5 years.

The recoverable amount of the CGUs based on the estimated value-in-use calculations was higher than the carrying amount at December 31, 2019, 2020, 2021 and June 30, 2022. Accordingly, no provision for impairment loss for goodwill, customer relationships and trademark is considered necessary.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Palaispa				
Revenue next 5 year				
(% annual growth rate)	8.43	11.91	7.31	6.51
EBIT/Revenue (%)	5.61	7.69	8.22	8.49
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	12.45	12.45	13.50	14.60
Shanghai				
Revenue next 5 year				
(% annual growth rate)	8.59	8.85	8.19	10.65
EBIT/Revenue (%)	3.87	3.83	3.91	0.68
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	14.70	14.65	13.70	12.06
Chongqing				
Revenue next 5 year				
(% annual growth rate)	10.13	10.36	7.12	5.60
EBIT/Revenue (%)	11.23	11.35	11.57	11.77
Long term growth rate(%)	2	2	2	2
Pre-tax discount rate (%)	14.60	14.60	14.60	15.50
Other cities				
Revenue next 5 year				
(% annual growth rate)	8.7~18.94	9.83~17.52	6.49~12.19	6.00~10.35
EBIT/Revenue (%)	2.22~16.34	4.30~17.74	4.42~18.14	0.50~18.25
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	12.77~14.15	12.80~14.76	13.65~17.85	12.90~17.85

Note: The pre-tax discount rate remained stable at 14.60% for the years ended December 31, 2019, 2020 and 2021 as there was no significant change on the main business and the risk profile of Chongqing CGU.

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Management has determined the values assigned to each of the above key assumptions as follows:

<u>Assumption</u>	<u>Approach used to determine values</u>
Sales volume	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Sales price	Average annual growth rate over the five-year forecast period; based on current industry trends and including long term inflation forecasts for each territory.
EBIT/Revenue	Based on past performance and management's expectations for the future.
Long term growth rate	The basis used to determine the value assigned to the long-term growth rate is the forecast price indices during the budget year from where the main services are located.

Based on the result of the goodwill impairment testing, the estimated recoverable amount of the CGU far exceeded its carrying amount and the headroom was as follows:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>June 30,</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<u>2022</u>
				<i>RMB'000</i>
Palaispa	160,640	160,639	107,761	135,997
Shanghai	173,489	185,163	289,234	157,681
Chongqing	113,922	113,922	110,854	117,734
	<u>448,051</u>	<u>459,724</u>	<u>507,849</u>	<u>411,412</u>

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The management performed the sensitivity analysis based on the abovementioned key assumptions that have been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased to as below:

Palaispa:	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expected revenue next				
5 year decreased by 3%	96,640	96,639	31,761	53,997
Expected EBIT/Revenue				
decreased by 3%	117,640	117,639	75,761	107,997
Pre-tax discount rate				
increased by 1%	149,640	149,639	93,761	115,997
Expected long term growth				
rate decreased by 1%	142,640	142,639	93,761	115,997
Shanghai:	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expected revenue next				
5 year decreased by 3%	11,749	121,163	74,234	21,681
Expected EBIT/Revenue				
decreased by 3%	109,489	45,163	204,234	95,681
Pre-tax discount rate				
increased by 1%	161,489	171,163	265,234	131,681
Expected long term growth				
rate decreased by 1%	164,489	175,163	257,234	113,681
Chongqing:	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expected revenue next				
5 year decreased by 3%	49,922	45,922	63,854	74,734
Expected EBIT/Revenue				
decreased by 3%	102,922	100,922	79,854	107,734
Pre-tax discount rate				
increased by 1%	104,922	104,922	99,854	111,734
Expected long term growth				
rate decreased by 1%	106,922	106,922	103,854	114,734

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Our management believes that any reasonable possible change in any of the key assumptions would not cause the carrying amounts of the CGU to exceed its recoverable amount.

Our management concluded that no provision for impairment on the goodwill has to be recognized as of December 31, 2019, 2020, 2021 and June 30, 2022.

Inventories

Our inventories primarily consist of medical and beauty consumables, beauty equipment to be sold to franchisees, other supplies used in the provision of our services, as well as our stock of skincare and beauty products. The following table sets forth our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Body and skin care products and medical consumables	81,723	70,957	103,570	125,817
<i>Less: Inventory provision</i>	<i>(4,565)</i>	<i>(5,608)</i>	<i>(6,320)</i>	<i>(8,389)</i>
Total	77,158	65,349	97,250	117,428

Our inventories decreased from RMB77.2 million as of December 31, 2019 to RMB65.3 million as of December 31, 2020. Such decrease was primarily due to the COVID-19 pandemic, which resulted in the reduced production power from certain suppliers overseas. Our inventories increased from RMB65.3 million as of December 31, 2020 to RMB97.3 million as of December 31, 2021, primarily due to increased procurements of skincare and beauty products to support the business growth. In addition, as we gradually engaged with an increasing number of suppliers overseas, we strategically procured more inventories in anticipation of any impact of the COVID-19 pandemic going forward. Furthermore, our inventories further increased to RMB117.4 million as of June 30, 2022, primarily due to the impact of the Recurrence in 2022 as we experienced store closures with slower-than-expected inventory consumption during this period.

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The following table sets forth the number of our inventory turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	2020	2021	2022
	2019	2020	2021	2022
Inventory turnover days ⁽¹⁾	39.1	32.4	31.3	46.0

Note:

- (1) Inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year/period, divided by the cost of sales and services for the same year/period, and multiplied by 365 days for 2019, 2020, 2021, and 180 days for the six months ended June 30, 2022.

Our inventory turnover days decreased from 39.1 days in 2019 to 32.4 days in 2020 and further to 31.3 days in 2021, primarily due to our improved inventory control driven by stable market demand for our services and products in line with the market recognition. In addition, we have adopted the ERP system and implemented a set of stringent inventory control measures since 2020. Our inventory turnover days increased to 46.0 days for the six months ended June 30, 2022, primarily due to the less inventory consumption during the Recurrence in 2022.

As of October 31, 2022, approximately RMB102.6 million, or 81.5%, of our inventories as of June 30, 2022 had been delivered or consumed. We believe we have made sufficient provisions based on our estimates on inventories consumption. In addition, we monitor the expiration dates closely through our logbook and physical inspection to ensure that no expired items will be used or sold. We experienced a slight delay in subsequent utilization of our inventories as supply chain and customer volume gradually recovered from the Recurrence in July and August of 2022.

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Trade Receivables and Notes Receivables

During the Track Record Period, our trade receivables and notes receivables primarily included outstanding amounts due from our franchised stores resulted from inter-stores settlements between direct stores and franchised stores. In addition, our trade receivables and notes receivables also included payments made by customers but not yet received from shopping malls or third-party payment platforms during the Track Record Period. The following table sets forth the details of our trade receivables and notes receivables as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivables	–	–	–	1,339
Trade receivables	32,655	38,959	33,809	35,152
<i>Less: provision for impairment</i>	<i>(2,339)</i>	<i>(2,260)</i>	<i>(2,493)</i>	<i>(2,111)</i>
Total trade receivables	30,316	36,699	31,316	33,041
Total trade receivables and notes receivables	30,316	36,699	31,316	34,380

Our trade receivables and notes receivables increased from RMB30.3 million as of December 31, 2019 to RMB36.7 million as of December 31, 2020, primarily due to the increased purchases from customers in line with our business expansion. Leveraging our expanding store network, it provides more opportunities for customers to enjoy our services at different stores in various locations, and therefore, our trade receivables and notes receivables due from our franchised stores increased gradually. Our trade receivables and notes receivables decreased from RMB36.7 million as of December 31, 2020 to RMB31.3 million as of December 31, 2021, primarily because we increased collection efforts for trade receivables and notes receivables from franchisees. Our trade receivables and notes receivables increased from RMB31.3 million as of December 31, 2021 to RMB34.4 million as of June 30, 2022, primarily due to the slower recoverability rate from franchised stores during the Recurrence in 2022.

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The following table sets forth the number of our trade receivables turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	2020	2021	2022
	Trade receivables turnover days ⁽¹⁾	10.4	8.1	7.0

Note:

- (1) Trade receivables turnover days was calculated based on the average of opening and closing balance of trade receivables less allowance for impairment for the relevant year/period, divided by the revenue for the same year/period and multiplied by 365 days for 2019, 2020, 2021, and 180 days for the six months ended June 30, 2022.

Our trade receivables turnover days decreased steadily at 10.4 days, 8.1 days, and 7.0 days in 2019, 2020 and 2021, respectively. We have established a credit control department to minimize our credit risk and maintain control over our outstanding receivables. Our management regularly review the settlement situations of customers with relatively long credit periods. Our trade receivable turnover days increased slightly from 7.0 days in 2021 to 7.9 days for the six months ended June 30, 2022 as our customers generally settle a higher proportion of trade receivables by the end of the year. The following table sets forth an aging analysis of our trade receivables as of the dates indicated presented based on invoice date:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Up to 1 year	30,393	34,870	31,888	32,433
Between 1 and 2 years	1,245	3,242	1,304	1,921
Between 2 and 3 years	660	506	380	457
Over 3 years	357	341	237	341
Total	32,655	38,959	33,809	35,152

As of October 31, 2022, approximately RMB27.9 million, or 79.4%, of our trade receivables as of June 30, 2022 had been settled. We do not believe there is any recoverability issue for our trade receivables and that adequate provisions had been made during the Track Record Period.

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Prepayments, Deposits and Other Receivables

During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of (i) rental deposits for our leased properties; (ii) prepayments for procurement of inventories, including prepayments for medical and beauty consumables as well as other supplies in relation to our operation; and (iii) other current assets, primarily represented the deductible taxes and listing expenses. The following table sets forth the details of our total prepayments, deposits, and other receivables as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits (non-current)	43,492	46,865	55,360	55,401
Deposits (current)	11,398	16,867	12,394	13,738
Prepayments for procurement of inventories and operating expenses	44,324	29,080	36,494	50,509
Other current assets	12,088	22,848	18,162	12,555
Amounts due from related parties	6,950	–	10,849	86,248
Prepaid listing expenses	–	–	3,792	4,311
Other receivables	11,529	14,578	5,670	13,209
<i>Less: provision for impairment</i>	<i>(2,754)</i>	<i>(651)</i>	<i>(404)</i>	<i>(556)</i>
Total	127,027	129,587	142,317	235,415

Our prepayments, deposits and other receivables increased from RMB127.0 million as of December 31, 2019 to RMB129.6 million as of December 31, 2020, primarily due to (i) an increase in rental deposits which was in line with our store network expansion and (ii) an increase in other current assets due to increases in deductible input VAT and prepayments of corporate income tax, both of which were resulted from the preferential tax treatment we received during the COVID-19 pandemic. Such increase was partially offset by a decrease in prepayments for procurement of inventories and operating expenses resulted from the decreased procurements of consumables. We regularly monitor and adjust our procurement of inventories depending on the adequacy of our supplies.

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Our prepayments, deposits and other receivables increased from RMB129.6 million as of December 31, 2020 to RMB142.3 million as of December 31, 2021, primarily due to (i) an increase in prepayments for inventories and operating expenses in line with our business growth and (ii) an increase in other current assets resulted from prepayments of listing expenses in 2021. Such increase was partially offset by a decrease in other receivables.

Our prepayments, deposits and other receivables increased from RMB142.3 million as of December 31, 2021 to RMB235.4 million as of June 30, 2022, primarily due to (i) an increase in amounts due from related parties resulted from reorganization, cooperation fee in relation to subhealth assessment and intervention services, and rental incomes. In particular, as of June 30, 2022, there was a significant increase in amounts due from related parties resulted from reorganization as the settlement of certain capital injection into the listing Group took longer period of time to complete the transaction due to the Recurrence in 2022. For reorganization in details, see Note 1.2(c) to the Accountant's Report set out in Appendix I to this prospectus. As of July 1, 2022, we had settled all amounts due from related parties, which were non-trade in nature. As of October 31, 2022, the remaining RMB7.2 million of amounts due from related parties out of June 30, 2022 were trade in nature. For details, see “— Related Party Transactions” in this section; (ii) an increase in other receivables primarily due to receivables due from certain employees for employee incentive platform and receivables for registered capital from certain shareholder; (iii) an increase in other current assets due to input VAT to be deducted and income tax withheld; (iv) an increase in deposits for property leases due to the store expansion; and (v) an increase in prepaid listing expenses.

As of October 31, 2022, approximately RMB141.7 million, or 77.1%, of our current prepayments, deposits and other receivables as of June 30, 2022, which amounted to RMB183.7 million, had been settled.

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Financial Assets at Fair Value Through Profit or Loss

During the Track Record Period, our financial assets at fair value through profit or loss represented wealth management products we purchased. As of December 31, 2019, 2020, 2021, and June 30, 2022, our financial assets at fair value through profit or loss was RMB358.9 million, RMB658.4 million, RMB926.3 million, and RMB709.7 million, respectively. The fluctuation of our financial assets at fair value through profit or loss at the end of each year was primarily due to (i) the different maturity of the various wealth management products we invested in; and (ii) the timing and amount we redeemed the wealth management products during each corresponding period. These wealth management products comprised short-term and low-risk financial products issued by commercial banks and state-owned trust companies in China. The expected rate of return ranged from 2.20% to 4.60% per annum. As of October 31, 2022, we had (i) wealth management products of approximately RMB210.2 million redeemable at any time, (ii) wealth management products of approximately RMB368.0 million redeemable before December 31, 2022, (iii) wealth management products of approximately RMB105.2 million which could not be redeemed before the expected maturity date, but would be redeemable at any time after April 2023, and (iv) wealth management products of approximately RMB50.2 million which could not be redeemed before the expected maturity date, but would be redeemable at any time after October 2023. The table below sets forth the details of wealth management products we purchased during the Track Record Period:

Type of investment	Total invested amount	Maturity Date	Interest rate
	(RMB'000)		
Wealth management products	110,000	84 days to 126 days	4.15%
Wealth management products	290,000	Due on demand	3.2%-4.0%
Wealth management products	250,000	Due on demand	3.5%-3.78%
Wealth management products	700,000	84 days to 364 days	4.1%-4.55%
Structured deposits	465,000	14 days to 90 days	2.6%-3.08%
Wealth management products	666,000	Due on demand	2.5%-2.7%
Wealth management products	752,200	Due on demand	2.42%-3.42%
Wealth management products	20,000	1 year	N/A ⁽¹⁾
Wealth management products	272,670	Due on demand	2.42%-3.0%
Wealth management products	323,920	Due on demand	2.2%-3.0%
	3,849,790		

Note:

(1) No fixed interest rate but principal is protected.

With our surplus cash on hand, we make investments in wealth management products. We have implemented a series of internal control policies and rules regarding investment in wealth management products to ensure that the purpose of investment is to preserve capital and liquidity until free cash is used in our primary business and operation. Our senior management team and the finance department are mainly

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responsible for making, implementing and supervising our investment decisions. We have formulated the standardized management protocol for funds management to monitor the process of our investment in wealth management products. From the perspective of cash management and risk control, we diversify our investment portfolios and have a designated finance team with relevant background in making such investments in accordance with our investment policy. Prior to making an investment, we ensure that there remains sufficient working capital for our business needs, operating activities and capital expenditures even after purchasing such wealth management products. When deciding whether to invest in the wealth management products, our designated finance team mainly considers (i) the issuer's credit and the historical performance and returns of its wealth management products, (ii) our overall risk exposure, risk concentration and risk diversification, and (iii) the wealth management product and the market performance and trend of such underlying assets. Upon the selection by the designated finance team, our finance department would initiate the internal approval procedures. In particular, our senior management team is responsible for the overall planning and approval of our investment in wealth management products. All investments need to be reviewed and approved by our key management personnel including our chief executive officer and chief financial officer. We adopt a prudent approach in selecting financial products. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, such as duration of the investment and the expected returns. To control our risk exposure, we have in the past sought, and may continue in the future to seek other low-risk financial products with terms no longer than twelve months.

Additionally, we mainly invest in financial products offered by reputable commercial banks and trust companies in China. After making an investment, we closely monitor its performance and fair value on a regular basis. We believe such investments are in our best interest since our primary objective of short-term investments in wealth management products is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation. In addition, we believe that our internal policies regarding investment in wealth management products and the related risk management mechanism are adequate. In addition, our investment in financial assets at fair value through profit or loss will also be subject to the compliance with Chapter 14 of the Listing Rules after Listing.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consisted of bank deposits. In 2019, 2020, 2021, and six months ended June 30, 2022, our cash and cash equivalents remained relatively stable at RMB104.8 million, RMB143.5 million, RMB157.3 million, and RMB149.7 million, which we consider a safe and liquid cash position to finance our daily operation.

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Trade and Other Payables and Accruals

During the Track Record Period, our trade payables primarily consisted of payments we owed to suppliers for medical and beauty consumables. Our other payables and accruals primarily consist of (i) employee benefits payables, which represented salaries and bonuses to be paid to our employees; (ii) accrual expenses for property management fees and services fees; (iii) taxes payables, which represented the VAT payables and business taxes and surcharges; (iv) franchisee deposits; (v) listing expenses payable in relation to the Global Offering; (vi) payables for acquisition of Shanxi Lixing and Xi'an Manzelian, two of our previous franchised stores, to expand our direct store network coverage. Such payables for acquisition of Shanxi Lixing and Xi'an Manzelian were settled in June 2021 and October 2021, respectively; and (vii) others, which primarily represented payables for renovation of our stores as well as software development. The following table sets forth the details of our trade and other payables and accruals as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables — third parties	30,022	17,820	15,436	29,304
Employee benefits payables	65,438	80,441	105,943	70,435
Taxes payables	10,992	14,605	18,710	5,361
Franchisee deposits	14,432	16,054	17,994	19,154
Listing expenses payable	–	–	10,731	14,919
Accrued expenses	11,303	14,574	12,057	9,669
Constructions payables	10,784	10,156	10,425	11,233
Dividend payable	33,961	–	5,521	5,437
Acquisition payable	–	7,559	–	–
Others	17,770	19,535	33,681	22,243
Total other payables and accruals	164,680	162,924	215,062	158,451
Total	194,702	180,744	230,498	187,755

Our trade and other payables and accruals decreased from RMB194.7 million as of December 31, 2019 to RMB180.7 million as of December 31, 2020, primarily because we did not incur dividend payables in 2020. Such decrease in trade and other payables and accruals was offset by an increase in employee benefits payables, primarily due to the increase in employee headcount.

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Our trade and other payables and accruals increased from RMB180.7 million as of December 31, 2020 to RMB230.5 million as of December 31, 2021, primarily due to (i) an increase in employee benefits payables resulted from the increased employee headcount and (ii) an increase in payables of listing expenses.

Our trade and other payables and accruals decreased from RMB230.5 million as of December 31, 2021 to RMB187.8 million as of June 30, 2022, primarily due to (i) a decrease in tax payables as a result of the decreased profit resulted from the Recurrence; and (ii) a decrease in employee benefits payables as the bonus and compensation normally announced at the year end and paid in the following months.

Trade payables are usually paid within 30 days of the recognition. The credit term for finished goods such as medical and beauty consumables is usually within 30 days. The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	27,782	15,502	13,436	28,077
1 to 2 years	1,638	1,395	1,544	693
Over 2 years	602	923	456	534
Total	30,022	17,820	15,436	29,304

The following table sets forth the number of our trade payables turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	2020	2021	2022
	Trade payables turnover days ⁽¹⁾	16.0	10.9	6.4

Note:

- (1) Trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant year/period, divided by the cost of sales and services for the same year/period, and multiplied by 365 days for 2019, 2020 and 2021, and 180 days for the six months ended June 30, 2022.

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Our trade payables turnover days were 16.0 days, 10.9 days, and 6.4 days in 2019, 2020 and 2021, respectively. Such decreases in turnover days were primarily due to our engagement with more suppliers overseas, who generally require us to pay the purchase price before the delivery of products. Our trade payables turnover days increased to 9.6 days for the six months ended June 30, 2022, primarily due to the Recurrence as we experienced slight delay in supply from certain suppliers. As the Recurrence gradually became contained, the delivery of products has resumed normal.

As of October 31, 2022, approximately RMB28.3 million, or 96.5%, of our trade payables as of June 30, 2022 had been settled.

Contract Liabilities

Our customers are required to pay our service fees in full before receiving our services. Depending on the needs of our clients and type of services, one-off service session, multiple service sessions of a single procedure or multiple types of procedures may be recommended to our clients to achieve desired results. Our clients may choose to pay before each service session or purchase prepaid package in respect of multiple service sessions and multiple types of procedures. For details, see “Business — Customers” in this prospectus. Our contract liabilities represent payments received for prepaid packages while the underlying services or products have not been provided, which are subsequently recognized as revenue upon rendering of the relevant services. Our contract liabilities increased from RMB914.7 million as of December 31, 2019 to RMB1,155.1 million as of December 31, 2020, and further increased to RMB1,347.7 million as of December 31, 2021, primarily due to our business growth. Our contract liabilities increased to RMB1,387.5 million as of June 30, 2022, mainly due to the impact of the Recurrence in 2022 as we experienced store closures and decreased client visits during this period, as a result, less prepaid packages were consumed during this period. In addition, due to the increased online promotion activities during the Recurrence, we have a stable number of clients and members who are willing to purchase prepaid packages from us, therefore, our contract liabilities increased accordingly.

During our daily operation, our clients can utilize their prepaid packages across different direct stores. However, it is not permissible under our policy for clients to directly utilize their prepaid packages across different franchised stores. The majority of our clients will fully utilize the prepaid packages within two years. As our contract liabilities represent the payments in advance by our customers, such liabilities do not require incremental spending to fulfill our service obligations other than maintaining our facilities and service crew. In addition, given our long history, consistent service quality and trustworthy brand characteristics, we believe that we have sufficient resources to timely fulfill our obligation and perform the services under the prepaid packages sold.

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The following table shows the movement of contract liabilities for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at the beginning of the year/period	835,188	914,730	1,155,062	1,347,685
Net forfeited income recognized during the year/period	(10,186)	(13,414)	(14,986)	(11,716)
Revenue recognized from provision of services and product sales to end customers and franchised stores	(1,303,579)	(1,383,266)	(1,661,980)	(679,071)
Payment to franchised stores due to the services provided to our members	(3,334)	(3,910)	(4,428)	(3,242)
Net increase in contract liabilities due to prepaid cards sold to end customers	1,311,282	1,557,397	1,745,292	699,267
Prepayments received from franchised stores and others	85,359	73,573	101,957	40,179
Acquisition of subsidiaries or business ⁽¹⁾	–	26,656	26,768	–
Disposal of subsidiaries or business ⁽²⁾	–	(16,704)	–	(5,581)
Balance at the end of the year/period	<u>914,730</u>	<u>1,155,062</u>	<u>1,347,685</u>	<u>1,387,521</u>

Notes:

- (1) Represented the acquisition of Shanxi Lixing, Chengdu Jinchun, Xi'an Manzelian and Wuhan Yingmier.
- (2) Represented the disposal of Hainan Qiyan and one direct store of Beijing Palaispa.

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The following table sets forth the revenue recognized during the Track Record Period relating to carried-forward contract liabilities:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue was recognized from contract liabilities at the beginning of the period	457,856	506,516	709,309	454,540

The following table sets forth an aging analysis of our contract liabilities based on the date of cash receipts from customers as of the date indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	597,312	784,440	927,581	910,388
1 to 2 years	132,153	171,060	199,284	254,947
2 to 3 years	37,313	55,391	74,764	86,910
Over 3 years	147,949	144,172	146,056	135,276
Total	914,727	1,155,062	1,347,685	1,387,521

Our contract liabilities aging within 3 years steadily increased over years, primarily due to our continued business expansion and increased client scale. In addition, our contract liabilities aging over 3 year remained relatively stable at RMB147.9 million, RMB144.2 million, RMB146.1 million, and RMB135.3 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

As of October 31, 2022, approximately RMB428.9 million or 30.9%, of our contract liabilities as of June 30, 2022 had been recognized as revenue.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal use of cash during the Track Record Period was for working capital purposes as well as store expansion and acquisition. Our main source of liquidity has been generated from cash flow from operation. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our

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operating activities, bank facilities and net proceeds from the Global Offering. As of June 30, 2022, we had cash and cash equivalents of RMB149.7 million. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus. As of October 31, 2022, we had RMB100.0 million unutilized bank facility.

Cash Flows

The following table sets forth our consolidated statements of cash flows for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Cash generated from operations before movements in working capital	422,976	470,765	542,081	264,439	188,935
Changes in working capital	72,716	246,469	173,781	16,791	(37,209)
Cash generated from operations	495,692	717,234	715,862	281,230	151,726
Income tax paid	(32,382)	(36,702)	(45,929)	(26,481)	(23,041)
Net cash flows generated from operating activities	463,310	680,532	669,933	254,749	128,685
Net cash flows generated from/(used in) investing activities	(256,732)	(368,943)	(385,347)	(93,048)	172,994
Net cash flows used in financing activities	(250,221)	(273,330)	(271,065)	(174,781)	(309,679)
Net (decrease)/increase in cash and cash equivalents	(43,643)	38,259	13,521	(13,080)	(8,000)
Cash and cash equivalents at beginning of the year/period	148,774	104,819	143,538	143,538	157,284
Exchange (losses)/gains on cash and cash equivalents	(312)	460	225	(167)	412
Cash and cash equivalents at end of the year/period	104,819	143,538	157,284	130,291	149,696

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Net Cash Generated From Operating Activities

For the six months ended June 30, 2022, we generated RMB128.7 million in cash from operating activities. The difference with RMB26.0 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB91.9 million of depreciation of right-of-use asset and RMB43.1 million of depreciation of property, plant and equipment. In the same time, additional RMB37.2 million of cash was used for our working capital as our trade receivables, other receivables and prepayments decreased by RMB23.8 million and our trade payables, other payables and accruals decreased by RMB36.6 million, partially offset by an RMB45.4 million increase in contract liabilities.

In 2021, we generated RMB669.9 million in cash from operating activities. The difference with RMB255.1 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB174.1 million of depreciation of right-of-use asset and RMB85.5 million of depreciation of property, plant and equipment. In addition, a total of RMB173.8 million of cash was released from our working capital as our contract liabilities increased by RMB165.9 million and our trade payables, other payables and accruals increased by RMB59.2 million.

In 2020, we generated RMB680.5 million in cash from operating activities. The difference with RMB188.5 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB158.6 million of depreciation of right-of-use asset and RMB90.2 million of depreciation of property, plant and equipment. In addition, a total of RMB246.5 million of cash was released from our working capital as our contract liabilities increased by RMB236.6 million and our trade payables, other payables and accruals decreased by RMB13.5 million.

In 2019, we generated RMB463.3 million in cash from operating activities. The difference with RMB179.8 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB143.0 million of depreciation of right-of-use asset and RMB70.9 million of depreciation of property, plant and equipment. In addition, a total of RMB72.7 million of cash was released from our working capital as our contract liabilities increased by RMB84.4 million and our trade receivables, other receivables and prepayments decreased by RMB30.2 million.

Net Cash Generated From/(Used in) Investing Activities

For the six months ended June 30, 2022, our net cash generated from investing activities was RMB173.0 million, primarily as a result of proceeds from redemption of wealth management products of RMB743.0 million, partially offset by purchase of wealth management products of RMB516.6 million.

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In 2021, our net cash used in investing activities was RMB385.3 million, primarily as a result of purchases of wealth management products of RMB1,614.5 million, and purchases of property, plant and equipment and other non-current assets of RMB133.2 million, partially offset by proceeds from redemption of wealth management products of RMB1,370.0 million.

In 2020, our net cash used in investing activities was RMB368.9 million, primarily as a result of purchases of wealth management products of RMB1,071.6 million, and purchases of property, plant and equipment and other non-current assets of RMB67.5 million, partially offset by proceeds from redemption of wealth management products of RMB785.5 million.

In 2019, our net cash used in investing activities was RMB256.7 million, primarily as a result of purchases of wealth management products of RMB647.1 million, and purchases of property, plant and equipment and other non-current assets of RMB107.8 million, partially offset by proceeds from redemption of wealth management products of RMB429.5 million, and repayment of borrowings from related parties of RMB71.9 million.

Net Cash Used in Financing Activities

For the six months ended June 30, 2022, our net cash used in financing activities was RMB309.7 million, primarily as a result of capital deduction from the owners of Shanghai Beauty Farm of RMB198.8 million, dividends paid of RMB122.6 million, and payment of lease liabilities of RMB118.0 million, partially offset by proceeds from the owners of Shanghai Beauty Farm of RMB119.2 million and capital injection from non-controlling interests of RMB7.7 million.

In 2021, our net cash used in financing activities was RMB271.1 million, primarily as a result of payment of lease liabilities of RMB177.5 million, dividends paid of RMB81.2 million, and transactions with non-controlling interests of RMB21.6 million, partially offset by consideration received for disposal of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme of RMB18.3 million.

In 2020, our net cash used in financing activities was RMB273.3 million, primarily as a result of payment of lease liabilities of RMB160.7 million, dividends paid of RMB106.8 million, and repayments of borrowings of RMB12.7 million, partially offset by transactions with non-controlling interests of RMB8.0 million.

In 2019, our net cash used in financing activities was RMB250.2 million, primarily as a result of payment of lease liabilities of RMB147.3 million, dividends paid of RMB80.7 million, consideration paid for disposal of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme of RMB12.4 million, and repayments of borrowings of RMB11.8 million.

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Net Current Assets/Liabilities

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Current assets					
Inventories	77,158	65,349	97,250	117,428	143,892
Trade receivables and notes receivables	30,316	36,699	31,316	34,380	66,868
Prepayments, deposits and other receivables	84,700	82,764	87,038	180,054	128,010
Financial assets at fair value through profit or loss	358,898	658,387	926,338	709,736	733,613
Restricted cash	–	–	10,254	10,270	10,278
Cash and cash equivalents	104,819	143,538	157,284	149,696	269,261
Total current assets	<u>655,891</u>	<u>986,737</u>	<u>1,309,480</u>	<u>1,201,564</u>	<u>1,351,922</u>
Current liabilities					
Trade payables	30,022	17,820	15,436	29,304	19,744
Other payables and accruals	164,680	162,924	215,062	158,451	173,712
Contract liabilities	914,730	1,155,062	1,347,685	1,387,521	1,395,463
Current tax liabilities	28,448	34,505	31,876	26,032	45,310
Borrowings	12,740	6,370	–	–	–
Lease liabilities	119,780	141,377	163,181	155,427	155,671
Other current liabilities	56,056	70,261	80,513	82,992	83,312
Total current liabilities	<u>1,326,456</u>	<u>1,588,319</u>	<u>1,853,753</u>	<u>1,839,727</u>	<u>1,873,212</u>
Net current liabilities	<u>670,565</u>	<u>601,582</u>	<u>544,273</u>	<u>638,163</u>	<u>521,290</u>

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We recorded an opening balance of accumulated losses of RMB16.8 million as of January 1, 2019, as our aggregate dividend declared and paid as of January 1, 2019 exceeded our accumulated net profits. Pursuant to the Reply of the Ministry of Finance on the Request for Instructions on the Issue of Profit Distribution in the Preparation of Consolidated Accounting Reports (財政部關於編製合併會計報告中利潤分配問題的請示的覆函) (“Circular 7”), for a company that prepares consolidated financial statements, its profit distribution is based on the distributable profits of its parent company, and the distributable profits in the consolidated financial statements cannot be used as the basis for the actual profit distribution. Although our aggregate dividend declared and paid as of January 1, 2019 exceeded our accumulated net profits, however, it did not exceed the distributable profits of the parent company, which complied with Circular 7. In addition, the historical distribution of dividends was approved by our Board and was in compliance with relevant applicable laws and regulations. The historical distribution of dividends was approved by our Board and was in compliance with relevant applicable laws and regulations. As a result of our net profit brought by our significant business growth, as of December 31, 2019, 2020, 2021 and June 30, 2022, we had retained earnings of RMB50.5 million, RMB133.4 million, RMB191.9 million and RMB87.0 million.

We had net current liabilities of RMB670.6 million, RMB601.6 million, RMB544.3 million, RMB638.2 million and RMB521.3 million as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, respectively. Our net current liability position was primarily attributable to (i) contract liabilities; (ii) lease liabilities in relation to the properties we leased for store operation, office premises and dormitories; and (iii) other payables and accruals, while our current assets increased at a relatively slower rate during the relevant period. In particular, the largest current liability item during the relative period was contract liabilities. They represent the payments in advance by our customers and it does not require incremental spending to fulfill our service obligations other than maintaining our facilities and service crew. In our operation, for every dollar we receive from our customers in prepayments, we will use a portion to fund our daily operation or save them in liquid form of financial assets at fair value through profit or loss, while we will also invest some in long-term assets to fund our growth, such as property, plant and equipment or right of use assets. This business model — reasonable and commonly seen in the industry — inevitably creates net current liability position, but we see no liquidity concern due to the reasons stated above as well as our strong ability to generate cash from operation. In particular, as of October 31, 2022, over 85% of our contract liabilities were pre-arranged and allocated to specific service programs as agreed by our clients.

Although we had net current liabilities during the Track Record Period, taking into account the financial resources available to us, including cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus. Additionally, we plan to continue improving our liquidity position in the following aspects:

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- *Cash flow generated from operations.* Our net cash from operating activities experienced robust growth during the Track Record Period. And we had net cash flow generated from operating activities in the amount of RMB495.7 million, RMB717.2 million, RMB715.9 million, RMB281.2 million and RMB151.7 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. As we optimize our service portfolio and cost structure, increase sales of higher-margin services, and continue to grow our business, we expect to generate a steady inflow of cash from operations in the foreseeable future, which will be applied to our working capital.
- *Bank loans and facilities.* Historically, we have been able to obtain our bank borrowings if needed. We do not foresee any impediment in continuing to do so in the future. In addition, if we obtain bank loans and facilities in the future, we plan to negotiate with banks to restructure our bank borrowings by obtaining better terms of loans and take systematic steps to restructure the composition of our short-term and long-term borrowings, such as refinancing certain portion of our short-term bank borrowings with long-term bank borrowings. As of October 31, 2022, we had RMB100.0 million unutilized bank facility.
- *Proceeds from the Global Offering.* We expect to receive proceeds from the Global Offering of approximately HK\$387.2 million.
- *Stringent cash management.* We closely monitor and manage our cash position and cash requirements to ensure that we have sufficient working capital for our operations. Our finance department is responsible for managing our working capital and the collection of our receivables and payables settlement. We review our cash position and cash requirements on a weekly basis to determine the usage and allocation of cash in our operations, optimize our capital structure and meet our working capital needs. Based on our weekly cash requirements, we will manage our receivables and payables settlement schedule. We also prepare cash flow projection for the next 12 months on a monthly rolling basis to ensure our long-term funding.

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INDEBTEDNESS

Our indebtedness mainly included bank borrowings and lease liabilities during the Track Record Period. Except as disclosed in the table below, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of October 31, 2022. After due and careful consideration, our Directors confirm that there had been no material adverse change in our indebtedness since October 31, 2022 and up to the Latest Practicable Date. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Current					
Borrowings	12,740	6,370	–	–	–
Lease liabilities	119,780	141,377	163,181	155,427	155,671
Non-current					
Borrowings	6,370	–	–	–	–
Lease liabilities	430,100	367,943	352,279	358,328	355,803
Total	568,990	515,690	515,460	513,755	511,474

Borrowings

Our bank loans and other borrowings during the Track Record Period were primarily used for acquisition of Palaispa Beijing. During the Track Record Period, our bank loans bore interest at a rate equivalent to 5.46% per year. For more details, see Note 29 to the Accountant's Report in Appendix I to this prospectus. As of October 31, 2022, we had nil bank loans and other borrowings.

Our Directors confirm that we have not defaulted in the repayment of the bank loans and other borrowings during the Track Record Period. Our Directors have confirmed that, as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, we did not experience any difficulty in obtaining bank loans.

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Lease Liabilities

The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Current	119,780	141,377	163,181	155,427	155,671
Non-current	430,100	367,943	352,279	358,328	355,803
Total	<u>549,880</u>	<u>509,320</u>	<u>515,460</u>	<u>513,755</u>	<u>511,474</u>

Our lease liabilities amounted to RMB549.9 million, RMB509.3 million, RMB515.5 million, RMB513.8 million and RMB511.5 million as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, respectively, which were primarily in relation to the properties we leased for our store operation, office premises and dormitories. We recognize a lease liability with respect to all leases, except for short-term leases and leases of low value assets.

CAPITAL EXPENDITURES

We regularly incur capital expenditures to expand our operations, upgrade our facilities and increase our operating efficiency. Our capital expenditures represented payment for purchases of property, plant and equipment, intangible assets and leasehold improvement during the Track Record Period. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we incurred capital expenditure of RMB107.8 million, RMB67.5 million, RMB133.2 million, RMB49.8 million and RMB51.1 million, respectively.

CONTRACTUAL OBLIGATIONS

Capital Commitments

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had capital commitments of RMB17.3 million, RMB17.4 million, RMB21.6 million and RMB23.7 million, respectively, primarily in connection with our leasehold improvement.

Lease Commitments

We entered into short-term leases for store operation, office premises and office equipment. As of December 31, 2019, 2020, 2021 and June 30, 2022, the outstanding lease commitment relating to these premises was RMB3.2 million, RMB5.0 million, RMB6.7 million and RMB5.0 million, respectively.

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CONTINGENT LIABILITIES

As of December 31, 2019, 2020, 2021 and June 30, 2022, we did not have any material contingent liabilities. We confirm that as of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios for the periods or as of the dates indicated:

	As of/For the Year ended December 31,			As of/For the Six Months ended June 30,
	2019	2020	2021	2022
	Current ratio ⁽¹⁾	0.49	0.62	0.71
Gearing ratio ⁽²⁾	0.36	0.05	–	–

Notes:

- (1) Equals current assets divided by current liabilities as of the same date.
- (2) Equals bank loans and other borrowings divided by total equity as of the same date.

Our current ratio increased from 0.49 as of December 31, 2019 to 0.62 as of December 31, 2020, and further increased to 0.71 as of December 31, 2021. Our current ratio decreased from 0.71 as of December 31, 2021 to 0.65 as of June 30, 2022. Although our current ratio maintained below 1.0 during the Track Record Period, we do not see a liquidity issue. For details of our analysis, see “— Liquidity and Capital Resources — Net Current Assets/Liabilities” in this section.

Our gearing ratio decreased from 0.36 as of December 31, 2019 to 0.05 as of December 31, 2020, and further decreased to nil and nil as of December 31, 2021 and June 30, 2022, primarily due to the repayment of our borrowings. As compared to our total equity, our bank loans and other borrowings were relatively low as of the same dates.

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RELATED PARTY TRANSACTIONS

Transactions With Related Parties

During the Track Record Period, we had entered into certain related party transactions, for details, see Note 34 to the Accountant's Report in Appendix I to this prospectus. During the Track Record Period, our related party transactions mainly represented cooperation fee from subhealth assessment and intervention services. For details, see "Connected Transaction — Our Continuing Connected Transactions" in this prospectus. The following table sets forth significant transactions between us and our related parties during the Track Record Period.

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Cooperation fee in relation to subhealth assessment and intervention services	-	-	17,159	6,285	10,165
Rental income	-	-	5,592	2,814	2,936
Borrowings to a related party	5,000	-	-	-	-
Repayment of borrowings from related parties	71,915	6,950	-	-	-
Interest income from borrowings to related parties	994	-	-	-	-

Outstanding Balances With Related Parties

The following table sets forth outstanding balances with related parties during the Track Record Period.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due from related parties – trade in nature	-	-	10,849	13,954
Amounts due from related parties – non-trade in nature	6,950	-	-	72,294
Total	6,950	-	10,849	86,248

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Our Directors confirm that all material related party transactions during the Track Record Period were conducted on an arm's length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance. In July 2022, we settled all outstanding balances with related parties, which were non-trade in nature as of June 30, 2022. Our Directors further confirmed that, as of the date of this prospectus, we had no outstanding balances with related parties which were non-trade in nature.

MARKET RISK DISCLOSURE

We are exposed to a variety of financial risks and market risk, including market risk (including foreign exchange risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our Group's financial performance. For more details, see Note 3.1 to the Accountant's Report in Appendix I to this prospectus.

Market Risks

Foreign Exchange Risk

We mainly operate in mainland China and are exposed to foreign exchange risk arising from currency exposures with respect to U.S. dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. We do not hedge against any fluctuation in foreign currency.

Credit Risk

We are exposed to credit risk in relation to its cash and cash equivalents, restricted cash, trade receivables and notes receivables, deposit and other receivables and financial assets at FVPL. The carrying amounts of these balances represent our maximum exposure to credit risk in relation to financial assets.

Credit Risk of Cash and Cash Equivalents, Restricted Cash and Financial Assets at FVPL

To manage the risk arising from credit risk of cash and cash equivalents, restricted cash and financial assets at FVPL, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

Credit Risk of Trade Receivables

The majority of our sales are settled through credit cards or e-pay applications against payment without credit terms. The remaining sales, such as to shopping malls, are settled with credit terms ranging from 14 days to 90 days. We apply the HKFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due.

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The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2019, 2020, 2021, and the six months ended June 30, 2021 and 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We have identified the GDP and the unemployment rate of PRC to be the most relevant factors, and accordingly adjust the historical loss rates based on expected changes in these factors.

We assess the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. The utilization of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties.

Credit Risk of Deposits and Other Receivables

Our Directors consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk, we compare risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. As of December 31, 2019, 2020, 2021, and June 30, 2022, there was no significant increase in credit risk since initial recognition of deposits and other receivables. For details of expected credit losses, see Note 25 to the Accountant's Report in Appendix I to this prospectus.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Our objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to us. For more details, see Note 3.1 to the Accountant's Report in Appendix I to this prospectus.

PROPERTY INTEREST AND PROPERTY VALUATION

JLL, an independent property valuer, has valued our selective property interests as of September 30, 2022. Particulars of these property interests are set out in Appendix IV to this prospectus.

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The table below sets out the reconciliation between the net book value of our selective property as of June 30, 2022 in the Accountant's Report set out in Appendix I to this prospectus and the market value of our selective property as of September 30, 2022 in the Property Valuation Report set out in Appendix IV to this prospectus.

	<i>(RMB'000)</i>
Net book value of our selective property as of June 30, 2022	72,840
Depreciation for the three months ended September 30, 2022	(847)
Net book value as of September 30, 2022	71,993
Valuation surplus as of September 30, 2022	20,697
Valuation as of September 30, 2022 as set out in Appendix IV to this prospectus	92,690

DIVIDENDS

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, certain companies comprising the Group declared dividends of RMB77.1 million, RMB72.8 million, RMB86.7 million, RMB78.0 million and RMB122.5 million, respectively, to then shareholders.

At the shareholders' general meeting held on December 8, 2022, Shanghai Beauty Farm declared a dividend in the amounts of approximately RMB71.9 million. We paid such dividend on December 16, 2022 by using our internal resources including but not limited to, cash and cash equivalent, and financial assets at fair value through profit or loss, which in aggregate amounted to approximately RMB1.0 billion as of October 31, 2022.

We believe that the distribution of the Dividend will not have a material impact on the sufficiency of our working capital after the Listing and we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations. Our historical declarations of dividends may not reflect our future declarations of dividends.

Currently, we do not have a formal dividend policy or a fixed dividend payout ratio. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they deem appropriate. No dividend shall be declared or payable except out of our profits, retained earnings or share premium, subject to a solvency test being satisfied.

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Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profits calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require enterprises incorporated in the PRC to set aside at least 10% of their after-tax profits based on the relevant accounting standards set out by the PRC regulatory authorities at the end of each year to fund certain statutory reserves until the statutory reserves reach and remain at or above 50% of the relevant PRC entity's registered capital. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

LISTING EXPENSES

Listing expenses in relation to the Global Offering are estimated to be approximately RMB88.5 million (HK\$98.6 million) (including underwriting commission), at the Offer Price of HK\$19.32 per Share, and assuming the Over-allotment Option is not exercised. Among the total listing expenses, approximately RMB75.6 million, or HK\$84.1 million is expected to be borne by us and approximately RMB13.0 million, or HK\$14.5 million is expected to be borne by the Selling Shareholder. As of June 30, 2022, we incurred a total of RMB40.7 million (HK\$45.4 million) in listing expenses, among which RMB36.4 million were recognized in our consolidated statement of comprehensive income, and RMB4.3 million were recognized in the consolidated statement of financial position to be accounted for as a deduction from equity upon Listing.

We estimate that additional listing expenses of approximately RMB34.8 million (HK\$38.8 million) (including underwriting commissions of approximately RMB31.6 million (HK\$35.2 million), assuming the Over-allotment Option is not exercised and based on the Offer Price of HK\$19.32 per Offer Share) will be incurred by our Company, approximately RMB9.9 million (HK\$11.0 million) of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB24.9 million (HK\$27.8 million) of which is attributable to the issue of shares and will be deducted from equity upon Listing. Our listing expenses as a percentage of gross proceeds is 17.9%, at an Offer Price of HK\$19.32 per Share, and assuming the Over-allotment Option is not exercised. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

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UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the owners of our Company as of June 30, 2022 as if the Global Offering had taken place on June 30, 2022. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of June 30, 2022 or as of any future dates following the Global Offering.

	Audited consolidated net tangible liabilities of our Group attributable to owners of our Company as of June 30, 2022	Estimated net Proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as of June 30, 2022	Unaudited pro forma adjusted consolidated net tangible assets per Share as of June 30, 2022	
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 3)</i>	<i>HK\$</i> <i>(Note 4)</i>
Based on an Offer Price of HK\$19.32 per Share	(59,242)	384,091	324,849	1.45	1.61

Notes:

- (1) The audited consolidated net tangible liabilities of our Group attributable to owners of our Company as of June 30, 2022 is extracted from the historical financial information contained in the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as of June 30, 2022 of approximately RMB164,207,000, with an adjustment for the intangible assets and goodwill attributable to the owners of our Company as of June 30, 2022 of approximately RMB68,039,000 and RMB155,410,000, respectively.
- (2) The estimated net proceeds from the Global Offering are based on 24,395,500 new Shares, after deduction of the underwriting fees and other related expenses paid/payable by our Company and excluding listing expenses of approximately RMB36,436,000 (equivalents to approximately HK\$40,578,225) which has been accounted for in the consolidated statements of comprehensive income up to June 30, 2022. It does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this prospectus.

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- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 224,395,500 Shares were in issue assuming that the Capitalization Issue and Global Offering had been completed on June 30, 2022 without taking into account of the (i) dividend of RMB71,924,000 declared on 8 December 2022; and (ii) 6,185,568 Shares to be granted after June 30, 2022 and vested over 4 years of service from date of grant pursuant to the Share Incentive Plan upon completion of Capitalization Issue; and any Shares which may be issued upon the exercise of the Over-allotment Option, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed “Share Capital” in this prospectus. However, had the (i) dividend of RMB71,924,000 declared on 8 December 2022; and (ii) 6,185,568 shares been taken into account, such that 230,581,068 Shares are in issue immediately following the completion of the Global Offering, the unaudited pro forma adjusted net tangible assets per Share would have been RMB1.10 (equivalent to HK\$1.23). This does not take into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares that may be granted and issued or repurchased by our Company pursuant to the General Mandate.
- (4) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.8979 to HK\$1.00, as set out in “Information about this Prospectus and the Global Offering” to this prospectus. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or *vice versa*, at that rate.
- (5) Saved as disclosed above, no adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to June 30, 2022.
- (6) As of September 30, 2022, the Group’s property interest was valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the full text of the valuation report with regard to such property interest is set out in Appendix IV to this prospectus. The valuation surplus as of September 30, 2022, representing the excess of market value of the Group’s property interest over its book value, was approximately RMB20,697,000 for the property. Such valuation surplus has not been included in the Group’s consolidated financial statements as of June 30, 2022. The above adjustments do not take into account the valuation surplus. Had the property interest for the property been stated at such valuation, additional depreciation of RMB646,000 per annum would be charged against the consolidated statement of profit or loss.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this prospectus, other than as disclosed under the “Recent Developments and No Material Adverse Change” in the “Summary” section in this prospectus, there had been no material adverse change in our financial, operational or prospects since June 30, 2022, being the latest balance sheet date of our consolidated financial statements as set out in the Accountant’s Report in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

For details of the description of our future plans, see “Business — Our Strategies” in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$387.2 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, and at an Offer Price of HK\$19.32 per Share.

We currently intend to apply these net proceeds for the following purposes. In addition to the net proceeds from the Global Offering to be received and allocated, we also plan to utilize our internal liquidity sources to supplement any shortfall in expenditure, if any. Specifically,

1. 67.6%, or approximately HK\$261.7 million, will be allocated to expand and upgrade our service network, including:
 - (a) 37.0%, or approximately HK\$143.2 million, will be used for expansion of our direct store network for traditional beauty services through organic growth and acquisitions. We consider our traditional beauty services as the foundation to our success as they help us cultivate and expand our active client base. We first gain client trust from traditional beauty services, and then extend to more sophisticated services such as aesthetic medical services and subhealth assessment and intervention services. We aim to expand rapidly across tier-one cities and new tier-one cities, catering to the demand and growth potential for high-quality traditional beauty services and tapping into a more diverse client pool to fuel further growth.

We plan to add 25, 30, 30, and 30 direct stores in 2023, 2024, 2025 and 2026, respectively. We will consider, among other things, (i) site location, (ii) spending power of future clients, (iii) our existing store network, (iv) avoidance of cannibalization and (v) potential costs and estimated return, when expanding our store network. We will strategically seek prime locations with high client traffic, such as shopping malls, which can be conveniently accessible by public transportation, to target clients who are white-collar professionals or management personnel with spending power comparable to that of our existing clients. We plan to further expand our network for our

FUTURE PLANS AND USE OF PROCEEDS

traditional beauty services with a focus on tier-one cities and new tier-one cities while expanding to other cities to acquire market shares. To avoid cannibalization, for our BeautyFarm (美麗田園) store network, we generally do not open a new direct BeautyFarm (美麗田園) store in a city where we already have a franchised BeautyFarm (美麗田園) store, and for our Palaispa (貝黎詩) store network, we generally do not open a new store within a two-and-a-half-kilometer radius of an existing store. We would also take into consideration factors such as rental rate and store size when adding a store to our traditional beauty service network and expect to reach a return comparable to that of a similarly-sized store in a same-tier city.

The following table sets forth the relevant information of expansion of our direct traditional beauty service network for the periods indicated. For any shortfall in expenditure, we plan to utilize our internal liquidity sources to finance such expansion.

	Number of new stores				Estimated amount of annual investment			
	2023	2024	2025	2026	2023	2024	2025	2026
	<i>(HK\$ in millions)</i>							
Tier-one cities								
BeautyFarm (美麗田園) store	10	11	13	12	55.2	60.7	71.7	66.2
Palaispa (貝黎詩) store	2	3	1	2	11.0	16.6	5.5	11.0
New tier-one and other cities								
BeautyFarm (美麗田園) store	13	16	16	16	55.8	68.7	68.7	68.7
Palaispa (貝黎詩) store	-	-	-	-	-	-	-	-
Total	25	30	30	30	122.0	146.0	145.9	145.9

- (b) 18.2%, or approximately HK\$70.5 million, will be used for expansion and upgrade of our store network for aesthetic medical services and subhealth assessment and intervention services in new tier-one cities, of which (i) 9.2%, or approximately HK\$35.6 million, will be used to expand our store network for aesthetic medical services, (ii) 4.6%, or approximately HK\$17.8 million, will be used to expand our store network for subhealth assessment and intervention services, and (iii) 4.4%, or approximately HK\$17.0 million, will be used to upgrade our existing store network for aesthetic medical services and subhealth

FUTURE PLANS AND USE OF PROCEEDS

assessment and intervention services such as renovating stores, upgrading medical devices, expanding our service offerings, and enlarging store sizes.

We have established a sizeable client base for our traditional beauty services. We believe expanding and upgrading our store network for aesthetic medical services and subhealth assessment and intervention services in new tier-one cities, where we have existing traditional beauty service stores, could capitalize on our clients' evolving demands for premium aesthetic medical services and subhealth assessment and intervention services through the offering of beauty and health management services by our well-established and widely recognized brand portfolios.

We plan to expand our direct store network for aesthetic medical services and subhealth assessment and intervention services by four, six, six and two stores in new tier-one cities through organic growth in 2023, 2024, 2025 and 2026, respectively. Based on our experiences, we anticipate that (i) approximately 75% to 80% of the investment costs for opening a CellCare (秀可兒) store or Neology (研源) healthcare center will be incurred for capital expenditure, such as decoration and purchase of equipment, furniture and office facilities, (ii) 10% to 15% will be incurred for staff salaries and training expenses, and (iii) the remaining will be incurred for marketing and other expenses.

The following table sets forth the relevant information of expansion of our direct aesthetic medical service and subhealth assessment and intervention services network for the periods indicated. For any shortfall in expenditure, we plan to utilize our internal liquidity sources to finance such expansion.

	Number of new stores				Estimated amount of annual investment			
	2023	2024	2025	2026	2023	2024	2025	2026
	<i>(HK\$ in millions)</i>							
CellCare (秀可兒) store	4	4	4	–	34.4	34.4	34.4	–
Neology (研源) healthcare center	–	2	2	2	–	17.2	17.2	17.2
Total	4	6	6	2	34.4	51.6	51.6	17.2

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The business sustainability of the Neology Brand, the provision of subhealth assessment and intervention services, the business need and business potential to have two new Neology healthcare centers in each of the year 2024, 2025 and 2026 are due to the following reasons:

1. *To-be-established Neology healthcare centers are expected to incur less costs.* The loss-making position of the existing Neology healthcare center was due to specific reasons: (i) during the Track Record Period, the flagship Neology healthcare centers in Shanghai and Beijing were designed to occupy larger areas and furnish with premium decoration, since they were established not only for profit creation but also for marketing purposes — we desired to create a brand effect for the Neology brand through the establishment and operation of the two centers; (ii) the loss-making position of the Neology healthcare center in Wuhan was due to unpredictable reasons as it was established in 2019 and experienced the COVID-19 outbreak shortly after its opening; (iii) regarding the loss-making Neology healthcare center in Shenzhen, it was a newly-established store in 2021, and therefore might not be considered as an indicator for the overall business performance of the existing Neology healthcare centers. We expect that the to-be-established Neology healthcare centers would not incur as much cost as the aforementioned ones. In the future, we will focus more on the establishment of functional Neology healthcare centers, featured with smaller areas and plain decoration. In addition, we expect to promote a more optimized product portfolio as well as price discounts to attract customers to our Neology healthcare centers.
2. *Rapid industry growth.* The industry growth of the subhealth assessment and intervention service market fuels us to further expand the provision of such services. According to Frost & Sullivan, the subhealth assessment and intervention service market is forecasted to reach RMB29.0 billion in 2030, with a CAGR of 17.1% from 2021 to 2030.
3. *The expansion of our subhealth assessment and intervention services is in line with our business development strategy.* Aiming to provide extensive beauty and health management service offerings, the provision of subhealth assessment and intervention services to our clients would enhance our image as an overall beauty and health management service provider and is beneficial in improving the customer stickiness. In addition, we have completed our business layout of the subhealth assessment and intervention services in tier-one cities, such as Shanghai, Beijing and Shenzhen, and in certain new tier-one cities, such as Wuhan, Xi'an and Chongqing, and has gradually expanded and advanced to other cities, such as Changchun, where the subhealth assessment and intervention service is underpenetrated. Based on our research and investigation, there is significant potential customer demand in new tier-one cities and other cities in China. Therefore, we plan to extend our footprint to Chengdu and Taiyuan in 2024, Nanjing in 2025, and Hangzhou and Zhengzhou in 2026.

FUTURE PLANS AND USE OF PROCEEDS

In addition, we plan to upgrade three, three and three existing aesthetic medical service or subhealth assessment and intervention service stores in new tier-one cities in 2023, 2024, and 2025, respectively, with an estimated annual spending of HK\$40.5 million. For any shortfall in expenditure, we plan to utilize our internal liquidity sources to finance such upgrade. Based on our experiences, we anticipate that (i) approximately 80% to 85% of the investment costs for upgrading a CellCare (秀可兒) store or Neology (研源) healthcare center will be incurred for capital expenditure, such as decoration and purchase of equipment, furniture and office facilities (ii) approximately 10% to 15% will be incurred for staff salaries and training expenses, and (iii) the remaining will be incurred for marketing and other expenses.

- (c) 12.4%, or approximately HK\$48.0 million, will be used to build one flagship beauty and health management service center in each of Shanghai and Beijing on the basis of existing store network of aesthetic medical services and subhealth assessment and intervention services in Shanghai and Beijing. Each such flagship store is expected to cost approximately HK\$94.0 million. For any shortfall in expenditure, we plan to utilize our internal liquidity sources to finance such expansion.

We believe there is sufficient market demand for our expansion efforts for the following reasons:

1. **Industry growth.** According to Frost & Sullivan, the traditional beauty service market will continue to grow as the population receiving traditional beauty services is forecasted to increase from 155.2 million in 2021 to 197.5 million in 2030 in China. The market of traditional beauty services also see a similar forecasted growth, reaching RMB640.2 billion in 2030 from RMB403.2 billion in 2021, with a CAGR of 5.3% from 2021 to 2030. The market of non-surgical aesthetic medical services is forecasted to reach RMB415.7 billion in 2030, with a CAGR of 17.5% from 2021 to 2030. In concurrent with the projected market growth, the population receiving non-surgical aesthetic medical services in China is projected to reach 67.2 million in 2030 with a CAGR of 14.2% from 2021 to 2030. Moreover, the market of subhealth assessment and intervention services is forecasted to reach RMB29.0 billion in 2030, with a CAGR of 17.1% from 2021 to 2030, and the population with suboptimal health status in China is expected to reach 583.1 million in 2030 from 568.4 million in 2021. For details, see “Industry Overview” in this prospectus. Given the magnitude of the expected increase in potential client pool of our services, we believe there will be a sufficient demand for our services.

FUTURE PLANS AND USE OF PROCEEDS

2. *Leading market position well-positioned for industry consolidation.* According to Frost & Sullivan, the fragmented market of traditional beauty services and aesthetic medical services is expected to become increasingly consolidated. Frost & Sullivan concludes, which we agree, that large-scale chain institutions, like us, with comprehensive service portfolio, established brand reputation and loyal client bases in mid-to-high-end markets are more likely to gain market shares in the future. Through decades of efforts, we have evolved into the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021. Our store network consisted of 177 direct stores, including 84 stores in tier-one cities and 73 stores in new tier-one cities, with another 175 franchised stores as of June 30, 2022. Our extensive store network, digitalized CRM and other systems, standardized training through BeautyFarm Training Centers (美麗田園培訓中心) and strict quality assurance measures ensure that our clients can conveniently access quality services within our store network. Our comprehensive service portfolio makes us well positioned to meet a client's different and evolving demands. Our direct stores are largely located in tier-one and new tier-one cities with clients having a higher spending power. Further expanding our presences in these cities would enable us to capitalize on the high growth rate of these cities. Based on the foregoing, we believe we can leverage our large-scale store network, our ability to offer comprehensive service portfolios together with the existing presence in tier-one and new tier-one cities, to quickly obtain a higher market share in the fragmented but increasingly consolidated industry.

3. *Synergies among our services.* Our beauty and health management service offerings cover traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services that are all personalized to serve our clients' needs. We first gain client trust from traditional beauty services, and then extend to more sophisticated services such as aesthetic medical services and subhealth assessment and intervention services, which in turn helps us cultivate client loyalty, retain clients and increase client spending. We have established a sizeable client base for our traditional beauty services, who are confident in the quality of our services and our brands and are more likely to purchase our aesthetic medical services or subhealth assessment and intervention services to satisfy their evolving demands. In addition, through the beauty and health management service offerings, we are more likely to retain clients within our service network.

FUTURE PLANS AND USE OF PROCEEDS

Because of the foregoing, we believe there is sufficient market demand that would justify our expansion plans. Although we saw negative same store growth between 2019 and 2020, that was largely due to the outbreak of the COVID-19 pandemic. And we successfully rebounded from such impact in 2021 and recorded a positive same-store growth rate across all business lines. We believe there is sufficient market demand that is commensurate with our plan to build a flagship beauty and health management service center in each of Shanghai and Beijing. We have a large number of direct stores in these two cities and have established a large client base consisting of clients with high spending power, who are ideal client candidates for our aesthetic medical services and subhealth assessment and intervention services. According to Frost & Sullivan, people in tier-one cities and new tier-one cities are more acceptable to aesthetic medical services. On the other hand, heavy workloads and unhealthy lifestyles of white-collars in urban areas have brought about many sub-health issues, which could be addressed by subhealth assessment and intervention services. Accordingly, we believe establishing a flagship in the two cities could leverage the synergies between our services to retain our clients within our service network.

The performances of our existing store network would also support our expansions plans.

In 2021, the overall utilization rate of our BeautyFarm (美麗田園) stores is 64.7% and 60.6% in tier-one cities and new tier-one cities, respectively. During the six months ended June 30, 2022, the overall utilization rate of our BeautyFarm (美麗田園) stores decreased to 55.0% in tier-one cities primarily due to the regional outbreak of the COVID-19 in Shanghai, and it increased to 62.2% in new tier-one cities.

In 2021, the overall utilization rate of our Palaispa (貝黎詩) stores is 54.2% in tier-one cities, and we did not have a Palaispa (貝黎詩) store in new tier-one cities. During the six months ended June 30, 2022, the overall utilization rate of our Palaispa (貝黎詩) stores decreased to 46.6% in tier-one cities primarily due to the regional outbreak of the COVID-19.

Given that our clients are mainly white-collar female professionals, many of whom may only enjoy our traditional beauty services during lunch break or after work, and that the average number of hours per client visit for our traditional beauty services is approximately three hours, we believe an overall utilization rate of approximately 75% to 80%, assuming two client visits per bed during weekdays and three client visits per bed during weekend, would be the optimal level we can achieve for our traditional beauty services in order to provide our clients with high quality service under a comfortable environment.

FUTURE PLANS AND USE OF PROCEEDS

Taking into consideration the projected growth of the market of traditional beauty services, we anticipate that we can attract more clients and further increase the utilization rate of our traditional beauty service stores. Considering that our traditional beauty service stores overall had an utilization rate of approximately 60% in 2021 and the six months ended June 30, 2022, which is getting close to the optimal level, and that our newly established traditional beauty service stores had an overall utilization rate of above 40% during the Track Record Period, which could enable them to reach breakeven in a relatively short time, we believe expanding the network of our traditional beauty services would better help us capitalize on the projected growth, enable us to reach clients who used to be inaccessible due to physical distance, and allow us to quickly obtain market shares in this fragmented but increasingly consolidated industry.

In 2021, the overall utilization rate of our CellCare (秀可兒) stores is 65.2% in tier-one cities and 39.1% in new tier-one cities. During the six months ended June 30, 2022, the overall utilization rate of our CellCare (秀可兒) stores decreased to 43.0% in tier-one cities as our CellCare (秀可兒) store in Shanghai experienced temporary closure due to the regional outbreak of the COVID-19 while the utilization rate increased to 39.9% in new tier-one cities. The utilization rate of our Neology (研源) healthcare centers also increased from 9.7% in 2019 to 15.3% in 2021 and remained relatively stable at 13.9% in the six months ended June 30, 2022. We believe such utilization rate would further increase given i) the projected high growth of the market of the two services and ii) our position as a large and comprehensive health and beauty chain, according to Frost & Sullivan. In addition, our further-expanded traditional beauty service network would cultivate a larger client base consisting of clients with high spending power, who are confident in the quality of our services and our brands and are more likely to purchase our aesthetic medical services and subhealth assessment and intervention services, which would in turn raise the utilization of our CellCare (秀可兒) stores and Neology (研源) healthcare centers. In addition, in certain cities and regions, we do not operate a CellCare (秀可兒) store or Neology (研源) healthcare center but have established our presence through offering traditional beauty services, which would generate demand for our aesthetic medical services and subhealth assessment and intervention services. Expanding our network of aesthetic medical services or subhealth assessment and intervention services into said cities and regions could capitalize on our existing clients' evolving demands and increase client loyalty.

FUTURE PLANS AND USE OF PROCEEDS

The annual targets of our planned store network expansion and upgrade are not completely fixed. The actual number, location, and timing of expansion and upgrade in any period will be affected by a number of factors and some of them are beyond our control. We may make necessary adjustment to our expansion and upgrade plans depending on market conditions, status of preparation of stores and other relevant factors, to strike a balance between our business expansion, upgrade and profitability.

We will also try to avoid cannibalization within our store network during the course of expansion. For example, we generally do not open a direct BeautyFarm (美麗田園) store in a city we already have a franchised store, and we plan not to open a new store within a two-kilometer radius of an existing store in Shanghai and three-kilometer radius of an existing store in other cities. And we generally do not open a new Palaispa (貝黎詩) store within a two-and-a-half-kilometer radius of an existing store. For details, see “Business — Our Network — Organic Growth and Acquisitions” in this prospectus. Since each member will be assigned a dedicated client manager at a specific traditional beauty service store, who will know the member’s unique needs well and better serve the member, the member tends to have a stable relationship with the relevant traditional beauty service store, further reducing the risk of cannibalization between our direct traditional beauty service stores.

2. 10.2%, or approximately HK\$39.5 million, will be used for strategic mergers and acquisitions of franchised stores, which have demonstrated great market potential and will create synergies with our direct store network. We plan to acquire eight, eight, six and six franchised stores, in 2023, 2024, 2025 and 2026, respectively. We are actively evaluating the performance of our existing franchised stores to screen potential targets. Apart from assessing the compatibility with our growth strategies of the potential target franchised stores, we would further review the operation and financial performance of the target stores and in particular, expect each shall meet several of the following requirements (i) be at a developing stage, (ii) locate in tier-one cities, or cities with an annual GDP ranked top 10 among all cities with franchised stores; (iii) serve at least 800 active members; and (iv) for the most recent financial year, have a revenue of at least RMB10 million, or rank in top by revenue among all franchised stores. As of the Latest Practicable Date, our store network consisted of 179 franchised stores. In addition, we plan to continue expanding our franchised store network going forward. As advised by Frost & Sullivan, as traditional beauty service industry is growing fast, considering our existing franchised store network and our future store network expansion, there are adequate potential acquisition targets available in the market that satisfy our criteria. As of the Latest Practicable Date, as confirmed by our Directors, we had not entered into any letters of intent or agreements with respect to acquisitions and had not identified any definite acquisition targets which meet the criteria as set out above.

FUTURE PLANS AND USE OF PROCEEDS

The annual targets of our planned acquisitions are not completely fixed. The actual number, location, and timing of acquisitions in any period will be affected by a number of factors and some of them are beyond our control. We may make necessary adjustment to our acquisition plans depending on market conditions, availability of suitable targets and other relevant factors, to strike a balance between our acquisitions and profitability.

3. 12.3%, or approximately HK\$47.6 million, will be allocated to further invest in our IT systems to develop our internal digitalization capabilities to streamline our daily operations and improve operational efficiency. We plan to, but are not limited by:
 - (i) allocating approximately 7.7%, or approximately HK\$29.8 million, to further develop our own digital systems to enhance the level of internal digitalization and foster the business development. In particular, we expect to develop or enhance, including but not limited to the following systems:
 1. an operating system for the store network, which integrates several different modules into one business management platform with functions such as employees' work scheduling, online and offline sales management, store operation management, client appointment and management, and product and inventory management;
 2. an enhanced WeChat-based marketing system, which enables customer development, membership management, client feedback collection, as well as product sales;
 3. an operating system for the medical beauty clinics, with multiple functions including the management of electronic medical records, client reception and consultation, treatment planning, sales billing, clinic operation and employee management, and inventory management;
 4. a client data analysis platform, which would facilitate the Company to establish an advanced data-based business model, and enable the Company's management to make more accurate and timely business decisions according to the clients' needs and preferences; and
 5. a system developing framework, which supports the uniform development, efficient deployment, and quality control of the Company's different digital systems and is expected to become the Company's exclusive system developing framework, integrated gateway, IT security, permission verification and other functions.

FUTURE PLANS AND USE OF PROCEEDS

We will make full use of the existing software and technology for the development of self-owned IT systems aforementioned, and currently are unaware of any need for procuring brand-new software or technology. To support the development of our IT systems, we plan to add additional personnel in our R&D team, which largely constitutes of IT personnel. As of the Latest Practicable Date, we had 78 IT personnel, with an average monthly salary of RMB29.3 thousand.

- (ii) allocating approximately 2.6% or approximately HK\$10.1 million, to improve existing IT infrastructure for our national store network, such as purchase of necessary network services and hardware and construction of internal data center;
 - (iii) allocating approximately 1.5%, or approximately HK\$5.8 million, to upgrade existing IT systems, such as our CRM system, ERP system and human resource system; and
 - (iv) allocating approximately 0.5%, or approximately HK\$1.9 million, to implement IT security measures.
4. 9.9%, or approximately HK\$38.4 million, will be allocated to the working capital and other general corporate purposes.

In the event that the net proceeds from the Global Offering are not sufficient to fund our expansion plan as disclosed above, we plan to utilize our internal capital resources or external financing as we believe appropriate to fund our future expansion.

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits with licensed banks or financial institutions as defined under the Securities and Futures Ordinance or the applicable laws in the relevant jurisdiction for non-Hong Kong based deposits.

The Selling Shareholder estimates that it will receive net proceeds from the Global Offering of approximately HK\$297.4 million, at the Offer Price of HK\$19.32 per Share. We will not receive net proceeds from the sale of Sale Shares pursuant to the Global Offering.

UNDERWRITING

HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited
Haitong International Securities Company Limited
Huatai Financial Holdings (Hong Kong) Limited
CLSA Limited
ICBC International Securities Limited
Tiger Brokers (HK) Global Limited
Futu Securities International (Hong Kong) Limited
Valuable Capital Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters.

The Global Offering comprises the Hong Kong Public Offering of initially 4,054,000 Hong Kong Offer Shares and the International Offering of initially 36,482,500 International Offering Shares (comprising 20,341,500 New Shares and 16,141,000 Sale Shares), subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange and such approval not having been subsequently revoked prior to the commencement of trading of the Shares on the Stock Exchange and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for termination

If any of the events set out below occur at any time prior to 8:00 a.m. on the Listing Date, the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by written notice to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect:

- (i) there shall develop, occur, exist or come into effect:
 - (a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the Cayman Islands, the United States, the United Kingdom, or the European Union (or any member thereof) (each a “Relevant Jurisdiction”); or
 - (b) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any Relevant Jurisdiction; or
 - (c) any event or series of events, whether in continuation, or circumstances in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, volcanic eruption, civil commotion, riots, rebellion, public disorder, acts of war (whether declared or undeclared), acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, destruction of power plant, outbreak, escalation, mutation or aggravation of diseases, pandemics or epidemics including, but not limited to, COVID-19, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS) and such related/mutated forms, economic sanction, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in whatever form, political change, paralysis of government operations, interruption or delay in transportation, other industry action in or directly or indirectly affecting any Relevant Jurisdiction; or

UNDERWRITING

- (d) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities of generally on the Stock Exchange, the New York Stock Exchange, the NYSE Amex, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (e) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent governmental authority), New York (imposed at Federal or New York State level or other competent governmental authority), London, Singapore, the PRC, the European Union (or any member thereof), or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (f) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a change of the Hong Kong dollars or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars), or (B) any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (g) any change or development involving a prospective change which has the effect of materialisation of any of the risks set out in the section headed "Risk Factors" in this Prospectus; or
- (h) any litigation or claim being threatened or instigated against any member of the Group or any Director or any member of the Controlling Shareholders or the Selling Shareholder; or
- (i) any contravention by the Company, any member of the Group, any Director, any member of the Controlling Shareholders or the Selling Shareholder of the Companies Ordinance, the PRC Company Law or the Listing Rules; or
- (j) any of the Directors, the chief executive officer or the chief finance officer of the Company vacating his or her office; or

UNDERWRITING

- (k) any litigation or claim being threatened or instigated against, or any governmental authority or any regulatory body or organisation in any Relevant Jurisdiction commencing any investigation, action or proceedings, or announcing an intention to investigate or take other action or proceedings, against the Company, any member of the Group, any Director or any member of the Controlling Shareholders or the Selling Shareholder; or
- (l) any of the chairman, president, Directors, chief executive officer or chief finance officer of the Company being charged with an indictable offence or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any of them or any announcement by any governmental, political, regulatory body that it intends to take any such action; or
- (m) any adverse change or prospective adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions (financial or otherwise) or prospects of any member of the Group (including any litigation or claim of any third party being threatened or instigated against any member of the Group); or
- (n) any order or petition for, or any valid demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (o) a prohibition applicable to on the Company, any of the Underwriters, and/or any of the foregoing's respective affiliates for whatever reason from allotting, issuing or selling the Shares (including Shares upon exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (p) the imposition of sanctions or economic sanctions, in whatever form, directly or indirectly, by, or for, the United States, the United Nation, the European Union (or any member thereof), the PRC or any other Relevant Jurisdiction on the Company or any member of the Group; or

UNDERWRITING

- (q) the issue or requirement to issue by the Company of a supplemental or amendment to this Prospectus, GREEN Application Forms, the preliminary offering circular or offering circular or other documents in connection with the offer and sale of the Shares pursuant to the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC,

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (A) has or will have or may have material adverse effect or any development involving a prospective material adverse effect, on the assets, liabilities, general affairs, business, management, performance, prospects, shareholders' equity, profit, losses, position or condition (financial or otherwise), results of operations, or prospects of the Group, taken as a whole, or material adverse effect to any present or prospective shareholder of the Company in its capacity as such; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this Prospectus, the GREEN Application Form, the formal notice, the preliminary offering circular or the offering circular; or (D) would have or may have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

UNDERWRITING

- (ii) there has come to the notice of the Overall Coordinators or the Joint Sponsors that:
 - (a) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the Operative Documents (as defined in the Hong Kong Underwriting Agreement), the preliminary offering circular and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Offering Documents and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
 - (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, not having been disclosed in the Offering Documents, constitutes a material omission therefrom; or
 - (c) material non-compliance of this Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or
 - (d) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company, the Controlling Shareholders and the Selling Shareholder or (ii) any of the representations, warranties and undertakings given by the Company, the Controlling Shareholders and the Selling Shareholder in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or
 - (e) any event, act or omission which gives or is likely to give rise to any liability of the Company, the Controlling Shareholders, and the Selling Shareholder pursuant to the indemnities given by the Company, the Controlling Shareholders, and the Selling Shareholder under the Hong Kong Underwriting Agreement; or
 - (f) any material breach of any of the obligations of the Company, the Controlling Shareholders and the Selling Shareholder under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

UNDERWRITING

- (g) a material portion of the orders placed or confirmed in the book-building process, or the investment commitments by any institutional or cornerstone investors have been withdrawn, terminated or cancelled; or
- (h) any cornerstone investor is unlikely to fulfil its obligation under the respective agreement; or
- (i) any expert, whose consent is required for the issue of this Prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the Joint Sponsors) prior to the issue of this Prospectus; or
- (j) any Material Adverse Change; or
- (k) Admission (as defined in the Hong Kong Underwriting Agreement) is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (l) the Company has withdrawn the Offering Documents (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering,

then the Joint Sponsors and the Overall Coordinators may, for themselves and on behalf of the Hong Kong Underwriters, in their sole and absolute discretion and upon giving notice orally or in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that it will not issue any further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering, the exercise of the Over-allotment Option or for the circumstances permitted under Rule 10.08 of the Listing Rules.

UNDERWRITING

(B) Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules and Guidance Letter GL89-16 published by the Stock Exchange, the Controlling Shareholders have undertaken to the Stock Exchange, the Joint Sponsors and our Company that, save as disclosed in the this prospectus and except pursuant to the Share Split, the Global Offering (including pursuant to the Stock Borrowing Agreement) or the exercise of the Over-allotment Option, he/it will not and will procure that the relevant registered holder(s) (if any) of the Shares in which any of them has a beneficial interests will not:

- (i) at any time in the period commencing on the date by reference to which disclosure of his/its holding of Shares is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which any of them are shown by this prospectus to be the beneficial owner; and
- (ii) at any time in the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares to such extent that immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it will, directly or indirectly cease to be controlling shareholders of the Company (as defined in the Listing Rules).

Note 2 to Rule 10.07(2) of the Listing Rules provides that the foregoing shall not prevent the Controlling Shareholders from using securities of the Company beneficially owned by them as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan.

The Controlling Shareholders have undertaken to the Stock Exchange and our Company that, he/it will, within the period commencing from the date by reference to which disclosure of his/its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date immediately inform the Company and the Stock Exchange in writing of:

- (i) any pledge(s) or charge(s) of any Shares or securities of the Company beneficially owned by any of him/it, whether directly or indirectly, in favor of any authorized institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) for a bona fide commercial loan as permitted under the Listing Rules, and the number of such Shares or securities of the Company so pledged or charged; and
- (ii) any indication(s) received by any of him/it, either verbal or written, from any pledgee or chargee of any Shares or other securities of the Company pledged or charged that any of such Shares or other share capital will be sold, transferred or disposed of.

UNDERWRITING

(C) *Undertakings by the CITIC PE Group*

Pursuant to Rule 10.07 of the Listing Rules and Guidance Letter HKEX-GL89-16 issued by the Stock Exchange, each of Shanghai Xinzhi Yuyuan, Shanghai Panxin, Beijing Xinyu, Beijing Youde, Shanghai Pannuo and CITIC PE (the “**CITIC PE Group**”) has undertaken to the Stock Exchange and to us that, save as disclosed in this prospectus and except pursuant to the Share Split, the Global Offering (including pursuant to any stock borrowing agreement that may be entered into with the Stabilizing Manager) or the exercise of the Over-allotment Option, it will not, and shall procure that none of its close associates will, without the prior written consent of the Stock Exchange or unless otherwise permitted under the Listing Rules that at any time during the First-Six Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares in respect of which it is shown by this prospectus to be the beneficial owner, provided that the above shall not prevent each member of the CITIC PE Group using securities of the Company beneficially owned by each of them as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

Note 2 to Rule 10.07(2) of the Listing Rules provides that Rule 10.07 does not prevent any member of the CITIC PE Group from using the Shares beneficially owned by it as security (including a charge or pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan.

Further, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each member of the CITIC PE Group has undertaken to the Stock Exchange and to us that, within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 6 months from the Listing Date:

- (a) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or charge that any of the pledged or charged Shares will be disposed of, immediately inform us in writing of such indications;

we will inform the Stock Exchange as soon as we have been informed of the above matters, if any, by CITIC PE Group and disclose such matters as soon as possible after being so informed.

UNDERWRITING

Undertakings pursuant to the Hong Kong Underwriting Agreement

(A) *Undertakings by the Company*

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), the Company has undertaken to each of the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters, the Capital Market Intermediaries and the Joint Sponsors not to without the prior written consent of the Joint Sponsors and the Overall Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any Shares or other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company, as applicable or any interest in any of the foregoing), or deposit any Shares or other securities of the Company, as applicable, with a depository in connection with the issue of depository receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any Shares or other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities of which are convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company, as applicable or any interest in any of the foregoing); or
- (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above, in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

UNDERWRITING

During the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), the Company shall not enter into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction such that any Controlling Shareholder, directly or indirectly, would cease to be a controlling shareholder (within the meaning defined in the Listing Rules) of the Company. In the event that the Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

(B) Undertakings by the Controlling Shareholders

Each of Mr. Li, Ms. Li, Mr. Lian, LIY Holdings, LYBF Management Holdings Limited, LIY Management, LIFY Holdings, LFYE Management Holdings Limited, LIFY Management, Meiyao Holdings, LIANSY Holdings Limited, NIUGF Holdings Limited, LIANSY Family Holdings Limited, CUIYJ Holdings Limited, CUIYJ Management Holdings Limited, YUANHM Holdings Limited, YUANHM Management Holdings Limited, Niu Guifen, Cui Yuanjun and Yuan Huimin (the “**Undertaking Controlling Shareholders**”) has undertaken to each of the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries that, without the prior written consent of the Joint Sponsors and the Overall Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) he or she or it will not, at any time during the First Six-Month Period, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

UNDERWRITING

- (ii) he or she or it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (i) (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and
- (iii) until the expiry of the Second Six-Month period, in the event that he or she or it enters into any of the transactions specified in paragraph (i) (a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will use its commercially reasonable effort to avoid creating a disorderly or false market in the securities of the Company.

For the avoidance of doubt, any Share(s) that may be acquired by any of the Undertaking Controlling Shareholders from the secondary market after Listing shall not fall within the remit of paragraph (i) to (iii).

Undertakings by other existing Shareholders

Each of Individual Group Holdings Limited, Crest Sail Limited, Thriving Team Limited and ZYLot Holdings Limited has undertaken to the Company, the Joint Sponsors and the Overall Coordinators, save for certain customary circumstances, it shall not, at any time during the period ending on, and including, the date that is six months from the Listing Date, dispose of any Relevant Shares or any interest in any company or entity holding or controlling (directly or indirectly) any Relevant Shares or, permit or cause a change in control of any company or entity holding or controlling (directly or indirectly) any Relevant Shares, and it shall procure that no company or entity holding or controlling (directly or indirectly) any Relevant Shares or any nominee or trustee holding in trust for the Shareholder will dispose of any Relevant Shares.

For the purpose of the above undertaking, “Relevant Shares” means any and all Shares, as reclassified, redesignated and subdivided from the Shares as held by the Shareholder on the date thereof in the manner as set out in this prospectus as if the reclassification, redesignation and subdivision has been completed on the date thereof; “dispose of ” means:

- (A) offer, pledge, charge, sell, mortgage, lend, create, transfer, assign or otherwise dispose, grant any option, warrant or right to purchase, sell, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or create any third party right of whatever nature over any Relevant Shares or any other securities convertible into or exercisable or exchangeable for such Relevant Shares, or that represent the right to receive, such Relevant Shares, or any interest in them; or

UNDERWRITING

- (B) enter into any option, swap or other arrangement that transfers to another, in whole or in part, any beneficial ownership of the Relevant Shares or any of the economic consequences or incidents of ownership of Relevant Shares or any other securities of the Company or any interest therein or which transfers or derives any significant part of its value from such Relevant Shares; or
- (C) enter into any transaction, directly or indirectly, with the same economic effect as any transaction specified in paragraph (A) or (B) above; or
- (D) offer to or agree or contract to effect or publicly disclose that it will or may enter into any transaction specified in paragraph (A), (B) or (C) above,

in each case, whether any of the transactions specified in paragraph (A), (B) or (C) above is to be settled by delivery of Relevant Shares or such other securities convertible into or exercisable or exchangeable for the Relevant Shares of the Company or in cash or otherwise (whether or not the issue of Relevant Shares or such other securities will be completed within the aforesaid period).

In addition, save for, among others, any Relevant Shares which may be sold by it as part of the Global Offering pursuant to the underwriting agreement(s) and/or cornerstone investment agreement(s), Beijing Xinyu Meiye Holdings Limited has provided lock-up undertakings in respect of the Relevant Shares during the period ending on, and including, the date that is six months from the Listing Date in favor of the Company, the Joint Sponsors and the Overall Coordinators, which are largely similar in form to the lock-up undertakings provided by Individual Group Holdings Limited, Crest Sail Limited, Thriving Team Limited and ZYLot Holdings Limited.

Hong Kong Underwriters' interests in the Company

Save for their respective obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

UNDERWRITING

International Offering

International Underwriting Agreement

In connection with the International Offering, the Company, the Controlling Shareholders, and the Selling Shareholder expect to enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offering Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering — The International Offering” in this prospectus.

Over-allotment Option

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Overall Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Company may be required to issue up to an aggregate of 6,080,000 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Offering, if any. See “Structure of the Global Offering — Over-allotment Option” in this prospectus.

Commissions and Expenses

The Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option) (the “**Fixed Fees**”), out of which they will pay any sub-underwriting commissions and other fees.

The Company may, at its sole discretion, pay to any one or more of the Underwriters a discretionary incentive fee of an aggregate of up to 1.0% of the Offer Price for each Offer Share (the “**Discretionary Fees**”). Assuming that the Discretionary Fees are paid in full, the ratio of the Fixed Fees and Discretionary Fees payable is therefore approximately 57:43.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, and such commission will be paid to the relevant International Underwriters.

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The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering (collectively, the “**Commissions and Fees**”) are estimated to be approximately HK\$98.6 million (assuming the Over-allotment Option is not exercised).

Indemnity

The Company has agreed to indemnify the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in

UNDERWRITING

the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Morgan Stanley Asia Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited are the Overall Coordinators of the Global Offering.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

40,536,500 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 4,054,000 Shares (subject to reallocation) in Hong Kong as described in “— The Hong Kong Public Offering” in this section below; and
- (b) the International Offering of initially 36,482,500 Shares (comprising 20,341,500 New Shares and 16,141,000 Sale Shares, subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in the sub-section headed “— The International Offering” in this section below.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offering Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 17.58% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares (including Shares issued pursuant to the full exercise of the Over-allotment Option) will represent approximately 19.70% of the total Shares in issue immediately following the completion of the Global Offering and the issue of Offer Shares pursuant to the Over-Allotment Option.

References in this prospectus to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 4,054,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.76% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “— Conditions of the Global Offering” in this section.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally into two pools: pool A and pool B (with any odd lot being allocated to pool A). The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

STRUCTURE OF THE GLOBAL OFFERING

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 2,027,000 Hong Kong Offer Shares is liable to be rejected.

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

If the International Offering is fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 12,161,000 Offer Shares (in the case of (a)), 16,215,000 Offer Shares (in the case of (b)) and 20,268,500 Offer Shares (in the case of (c)), representing approximately 30%, approximately 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option) (the “**PN18 Clawback**”). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Overall Coordinators deem appropriate.

If the Hong Kong Public Offering is not fully subscribed for, the Overall Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Overall Coordinators deem appropriate. In addition, the Overall Coordinators may in their sole discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In particular, if (i) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, the Overall

STRUCTURE OF THE GLOBAL OFFERING

Coordinators have the authority to reallocate International Offer Shares originally included in the International Offering to the Hong Kong Public Offering in such number as they deem appropriate, provided that in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, the number of International Offer Shares reallocated to the Hong Kong Public Offering should not exceed 4,054,000 Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 8,108,000 Shares, representing approximately 20% of the Offer Shares.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Overall Coordinators deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Global Offering, which is expected to be published on Friday, January 13, 2023.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he has been or will be placed or allocated International Offering Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the Offer Price of HK\$19.32 per Offer Share in addition to the brokerage, the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$9,757.42 for one board lot of 500 Shares. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 36,482,500 Shares, comprising (i) 20,341,500 New Shares; and (ii) 16,141,000 Sale Shares, representing approximately 90.0% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 15.82% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “— Pricing of the Global Offering” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Overall Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Overall Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation and Clawback” in this section above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Overall Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Overall Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to issue up to an aggregate of 6,080,000 additional Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

STRUCTURE OF THE GLOBAL OFFERING

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 2.57% of the total Shares in issue immediately following the completion of the Global Offering and the issue of Offer Shares pursuant to the Over-allotment Option. If the Over-allotment Option is exercised, an announcement will be made.

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager, or any person acting for it may choose to borrow up to 6,080,000 Shares, representing not more than 15% of the total number of the Offer Shares initially available under the Global Offering, from LIY Management pursuant to the Stock Borrowing Agreement.

The stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with as follows:

- such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from LIY Management by the Stabilizing Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to LIY Management or its nominee(s) within three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, (b) the day on which the Over-allotment Option is exercised in full, and (c) such earlier time as the parties to the Stock Borrowing Agreement may from time to time agree in writing;
- the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- no consideration will be paid to LIY Management by the Stabilizing Manager (or any person acting for it) in relation to such stock borrowing arrangement.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, being 6,080,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilization action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Sunday, February 5, 2023, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

STRUCTURE OF THE GLOBAL OFFERING

- (e) the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilization period by the taking of any stabilizing action; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

In order to effect stabilization actions, the Stabilizing Manager will arrange cover of up to an aggregate of 6,080,000 Shares, representing up to approximately 15% of the initial Offer Shares, through borrowing of Shares from the Shareholders and/or delayed delivery arrangements with investors who have been allocated Offer Shares in the International Offering. The delayed delivery arrangements (if specifically agreed by an investor) relate only to the delay in the delivery of the Offer Shares to such investor and the Offer Price for the Offer Shares allocated to such investor will be paid on the Listing Date.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

PRICING OF THE GLOBAL OFFERING

The Offer Price will be HK\$19.32 per Offer Share unless otherwise announced, as further explained below.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

The Overall Coordinators (on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered and/or the Offer Price below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Company and the Stock Exchange at www.beautyfarm.com.cn and www.hkexnews.hk, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price will be final and conclusive. If the number of Offer Shares and/or the Offer Price range is so reduced, all applicants who have already submitted an application will be entitled to withdraw their applications and will need to confirm their applications in accordance with the procedures set out in the supplemental prospectus. Failure to confirm within the prescribed time will lead to the application being lapsed and all unconfirmed applications will not be valid.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares and/or the Offer Price will not be reduced.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Overall Coordinators (on behalf of the Underwriters) and the Company agreeing on the Offer Price.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on or about Friday, January 6, 2023.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the commencement of trading of the Shares on the Stock Exchange;
- (b) the execution and delivery of the International Underwriting Agreement on or about Friday, January 6, 2023; and
- (c) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements or otherwise,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published on the websites of the Company and the Stock Exchange at www.beautyfarm.com.cn and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Monday, January 16, 2023, provided that the Global Offering has become unconditional in all respects at or before that time.

STRUCTURE OF THE GLOBAL OFFERING

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, January 16, 2023, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, January 16, 2023.

The Shares will be traded in board lots of 500 Shares each and the stock code of the Shares will be 2373.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.beautyfarm.com.cn. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8690 on the following dates:

Friday, December 30, 2022	—	9:00 a.m. to 9:00 p.m.
Tuesday, January 3, 2023	—	9:00 a.m. to 9:00 p.m.
Wednesday, January 4, 2023	—	9:00 a.m. to 9:00 p.m.
Thursday, January 5, 2023	—	9:00 a.m. to 9:00 p.m.
Friday, January 6, 2023	—	9:00 a.m. to 12:00 noon

1. HOW TO APPLY

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

- (1) apply online via the **White Form eIPO** service at www.eipo.com.hk; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
- (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Overall Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older; and
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act).

The number of joint applicants may not exceed four.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are a firm, the application must be in the individual members' names.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a close associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- (a) have a valid Hong Kong identity card number/passport number (for individual applicant) or Hong Kong business registration number/certificate of incorporation number (for body corporate applicant);
- (b) have a Hong Kong address; and
- (c) provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this prospectus, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Overall Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Cayman Companies Act and the Articles of Association;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Underwriters, the Capital Market Intermediaries, the **White Form eIPO** Service Provider, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Underwriters, the Capital Market Intermediaries and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Underwriters, the Capital Market Intermediaries nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the

HOW TO APPLY FOR HONG KONG OFFER SHARES

Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Overall Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 500 Hong Kong Offer Shares and in one of the numbers set out in the table below. You are required to pay the amount next to the number you select.

Beauty Farm Medical and Health Industry Inc.

美麗田園醫療健康產業有限公司

(HK\$19.32 per Hong Kong Offer Share)

NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK\$		HK\$		HK\$		HK\$
500	9,757.42	7,000	136,603.89	50,000	975,742.11	400,000	7,805,936.88
1,000	19,514.84	8,000	156,118.73	60,000	1,170,890.53	450,000	8,781,678.99
1,500	29,272.26	9,000	175,633.57	70,000	1,366,038.95	500,000	9,757,421.10
2,000	39,029.68	10,000	195,148.43	80,000	1,561,187.38	600,000	11,708,905.32
2,500	48,787.10	15,000	292,722.62	90,000	1,756,335.80	700,000	13,660,389.55
3,000	58,544.52	20,000	390,296.84	100,000	1,951,484.22	800,000	15,611,873.75
3,500	68,301.95	25,000	487,871.05	150,000	2,927,226.34	900,000	17,563,357.98
4,000	78,059.38	30,000	585,445.27	200,000	3,902,968.45	1,000,000	19,514,842.20
4,500	87,816.79	35,000	683,019.48	250,000	4,878,710.56	1,500,000	29,272,263.30
5,000	97,574.21	40,000	780,593.69	300,000	5,854,452.65	2,027,000 ⁽¹⁾	39,556,585.13
6,000	117,089.05	45,000	878,167.89	350,000	6,830,194.76		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Applicants who meet the criteria set out in the sub-section headed “— 2. Who Can Apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

If you have any questions on how to apply through the **White Form eIPO** service for the Hong Kong Offer Shares, please contact the telephone enquiry line of our Hong Kong Share Registrar, and **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited at +852 2862 8690 which is available on the following dates:

Friday, December 30, 2022 — 9:00 a.m. to 9:00 p.m.
Tuesday, January 3, 2023 — 9:00 a.m. to 9:00 p.m.
Wednesday, January 4, 2023 — 9:00 a.m. to 9:00 p.m.
Thursday, January 5, 2023 — 9:00 a.m. to 9:00 p.m.
Friday, January 6, 2023 — 9:00 a.m. to 12:00 noon

Time for Submitting Applications under the White Form eIPO Service

The application for the Hong Kong Offer Shares will commence on Friday, December 30, 2022 through Friday, January 6, 2023, being slightly longer than normal market practice of four days.

You may submit your application through the **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, December 30, 2022 until 11:30 a.m. on Friday, January 6, 2023 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, January 6, 2023 or such later time under the “— 10. Effect of Bad Weather and/or Extreme Conditions on the Opening and Closing of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Commitment to Sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “BeautyFarm Medical and Health Industry Inc.” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

6. APPLYING THROUGH THE CCASS EIPO SERVICE

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong if you complete an input request.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Overall Coordinators and our Hong Kong Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Applying through the CCASS EIPO service

Where you have applied through the **CCASS EIPO** service (either indirectly through a **broker** or **custodian** or directly) and an application is made by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors and the Overall Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Underwriters, the Capital Market Intermediaries, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Underwriters, the Capital Market Intermediaries and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Applying through the CCASS EIPO Service

By applying through the **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the Offer Price, brokerage, SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application, refund of the application monies (including brokerage, SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, December 30, 2022	—	9:00 a.m. to 8:30 p.m.
Saturday, December 31, 2022	—	8:00 a.m. to 1:00 p.m.
Tuesday, January 3, 2023	—	8:00 a.m. to 8:30 p.m.
Wednesday, January 4, 2023	—	8:00 a.m. to 8:30 p.m.
Thursday, January 5, 2023	—	8:00 a.m. to 8:30 p.m.
Friday, January 6, 2023	—	8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, December 30, 2022 until 12:00 noon on Friday, January 6, 2023 (24 hours daily, except on Friday, January 6, 2023, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, January 6, 2023, the last application day or such later time as described in “— 10. Effect of Bad Weather and/or Extreme Conditions on the Opening and Closing of the Application Lists” in this section.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

With regard to the announcement of results of allocations under the section headed “11. Publication of Results”, the list of identification document number(s) may not be a complete list of successful applicants, only successful applicants whose identification document numbers are provided to HKSCC by CCASS Participants are disclosed. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results.

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The following Personal Information Collection Statement applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Underwriters, the Capital Market Intermediaries and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through the **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of the Company and its Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to the Company or its agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of the Company or its Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of Share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Company's Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the Company's Register of Members;
- verifying identities of the holders of the Company's Shares;
- establishing benefit entitlements of holders of the Company's Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Company's Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to holders of the Company's Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by the Company and its Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but the Company and its Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

The Company and its Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether the Company or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company, at the Company's registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or the Company's Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by the **CCASS eIPO** service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators,

HOW TO APPLY FOR HONG KONG OFFER SHARES

the Underwriters and the Capital Market Intermediaries take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, January 6, 2023.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS eIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

You must pay the Offer Price, brokerage, SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares. This means that for one board lot of 500 Hong Kong Offer Shares, you will pay HK\$9,757.42.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in “— 4. Minimum Application Amount and Permitted Numbers”, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy and AFRC transaction levy collected by the Stock Exchange on behalf of the SFC and the AFRC respectively).

For further details on the Offer Price, see “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, January 6, 2023. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, January 6, 2023 or if there is/are a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made on our website at www.beautyfarm.com.cn and the website of the website of the Stock Exchange at www.hkexnews.hk.

11. PUBLICATION OF RESULTS

The Company expects to announce the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, January 13, 2023 on the Company’s website at www.beautyfarm.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration/certificate of incorporation numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.beautyfarm.com.cn and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Friday, January 13, 2023;
- the designated results of allocations website at www.iporeresults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, January 13, 2023 to 12:00 midnight on Thursday, January 19, 2023; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Friday, January 13, 2023, Monday, January 16, 2023, Tuesday, January 17, 2023 and Wednesday, January 18, 2023.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

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Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- (a) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or
- (b) if any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Overall Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions in on the designated website at www.eipo.com.hk;
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Overall Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Friday, January 13, 2023.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Friday, January 13, 2023. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. Monday, January 16, 2023, provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply through the White Form eIPO service

You apply for 1,000,000 or more Hong Kong Offer Shares through the **White Form eIPO** service, and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund check(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, January 13, 2023, or such other place or date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your Share certificate(s) and/or refund check(s) (where applicable) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) and/or refund check(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, January 13, 2023 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) in favour of the

HOW TO APPLY FOR HONG KONG OFFER SHARES

applicant (or, in the case of joint applications, the first-named applicant) by ordinary post at your own risk.

(ii) If you apply through the CCASS EIPO service

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, January 13, 2023, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Friday, January 13, 2023. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, January 13, 2023 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your **broker** or **custodian** to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, January 13, 2023. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, January 13, 2023.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEAUTY FARM MEDICAL AND HEALTH INDUSTRY INC. AND MORGAN STANLEY ASIA LIMITED, HAITONG INTERNATIONAL CAPITAL LIMITED AND HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Beauty Farm Medical and Health Industry Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-100, which comprises the consolidated balance sheets as at 31 December 2019, 2020, 2021 and 30 June 2022, the balance sheet of the Company as at 30 June 2022, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2022 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-100 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 December 2022 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 30 June 2022, and the consolidated financial position of the Group as at 31 December 2019, 2020, 2021 and 30 June 2022, and its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set forth in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial

Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set forth in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which states that no dividends have been paid by Beauty Farm Medical and Health Industry Inc. in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
30 December 2022

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	Year ended 31 December			Six months ended 30 June	
		2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Revenue	6	1,404,752	1,503,296	1,780,740	836,830	734,318
Cost of sales and services	9	(696,411)	(803,272)	(946,954)	(447,879)	(420,289)
Gross profit		708,341	700,024	833,786	388,951	314,029
Selling expenses	9	(277,973)	(270,521)	(299,464)	(130,338)	(120,236)
Research and development expenses	9	(9,142)	(12,670)	(18,029)	(7,751)	(14,992)
General and administrative expenses	9	(237,375)	(224,057)	(272,450)	(131,835)	(167,260)
Other income	7	15,985	11,646	20,727	12,338	17,515
Other expense	7	–	–	(3,481)	(1,774)	(1,698)
Other gains	8	2,768	6,888	18,252	9,960	9,459
Reversal of/(provision for) impairment losses on financial assets	25	4,571	2,015	(1,306)	(550)	230
Operating profit		207,175	213,325	278,035	139,001	37,047
Finance income	11	852	1,134	1,283	606	1,038
Finance costs	11	(28,264)	(25,928)	(24,216)	(12,325)	(12,045)
Finance costs – net	11	(27,412)	(24,794)	(22,933)	(11,719)	(11,007)
Profit before income tax		179,763	188,531	255,102	127,282	26,040
Income tax expenses	12	(32,340)	(36,346)	(46,761)	(22,175)	(6,191)
Profit for the year/period		<u>147,423</u>	<u>152,185</u>	<u>208,341</u>	<u>105,107</u>	<u>19,849</u>
Profit attributable to:						
Owners of the Company		140,329	150,959	193,475	96,947	15,123
Non-controlling interests		7,094	1,226	14,866	8,160	4,726
		<u>147,423</u>	<u>152,185</u>	<u>208,341</u>	<u>105,107</u>	<u>19,849</u>
Earnings per share for profit attributable to owners of the Company						
Basic and diluted earnings per share (RMB)	13	<u>1.41</u>	<u>1.51</u>	<u>1.94</u>	<u>0.97</u>	<u>0.15</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December			Six months ended 30 June	
		2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Profit for the year/period		147,423	152,185	208,341	105,107	19,849
Other comprehensive loss						
<i>Items that will not be reclassified to profit or loss</i>						
Changes in the fair value of equity investments at fair value through other comprehensive income	28	(1)	(3)	(105)	53	(74)
Other comprehensive loss for the year/period, net of tax		(1)	(3)	(105)	53	(74)
Total comprehensive income for the year/period		<u>147,422</u>	<u>152,182</u>	<u>208,236</u>	<u>105,160</u>	<u>19,775</u>
Total comprehensive income attributable to:						
Owners of the Company		140,328	150,956	193,370	97,000	15,049
Non-controlling interests		7,094	1,226	14,866	8,160	4,726
		<u>147,422</u>	<u>152,182</u>	<u>208,236</u>	<u>105,160</u>	<u>19,775</u>

CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December			As at
		2019	2020	2021	30 June
		RMB'000	RMB'000	RMB'000	2022
				RMB'000	
ASSETS					
Non-current assets					
Property, plant and equipment	15	307,943	217,443	259,504	264,733
Investment properties	16	–	78,114	74,538	72,840
Right-of-use assets	17	551,527	466,467	451,795	464,145
Intangible assets	18	78,337	90,344	90,251	85,749
Goodwill	21	152,268	176,057	194,273	191,537
Prepayments, deposits and other receivables	25	42,327	46,823	55,279	55,361
Other non-current assets	19	3,887	5,074	7,103	5,317
Financial assets at fair value through other comprehensive income		182	179	74	–
Deferred income tax assets	32	26,265	35,950	35,015	47,294
Total non-current assets		1,162,736	1,116,451	1,167,832	1,186,976
Current assets					
Inventories	24	77,158	65,349	97,250	117,428
Trade receivables and notes receivables	25	30,316	36,699	31,316	34,380
Prepayments, deposits and other receivables	25	84,700	82,764	87,038	180,054
Financial assets at fair value through profit or loss	22	358,898	658,387	926,338	709,736
Restricted cash	26	–	–	10,254	10,270
Cash and cash equivalents	26	104,819	143,538	157,284	149,696
Total current assets		655,891	986,737	1,309,480	1,201,564
Total assets		1,818,627	2,103,188	2,477,312	2,388,540
EQUITY					
Share capital	27	–	–	–	7
Treasury stock	27	–	–	–	–*
Share premium		–	–	–	84,358
Other reserves	28	(3,164)	7,452	65,439	(7,205)
Retained earnings		50,502	133,421	191,924	87,047
Equity attributable to owners of the Company		47,338	140,873	257,363	164,207
Non-controlling interests		5,417	(165)	5,173	16,251
Total equity		52,755	140,708	262,536	180,458

* Less than RMB1,000

	<i>Note</i>	As at 31 December			As at
		2019	2020	2021	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
				<i>RMB'000</i>	
LIABILITIES					
Non-current liabilities					
Borrowings	29	6,370	–	–	–
Lease liabilities	17	430,100	367,943	352,279	358,328
Deferred tax liabilities	32	2,946	6,218	8,744	10,027
Total non-current liabilities		439,416	374,161	361,023	368,355
Current liabilities					
Trade payables	31	30,022	17,820	15,436	29,304
Other payables and accruals	31	164,680	162,924	215,062	158,451
Contract liabilities	6	914,730	1,155,062	1,347,685	1,387,521
Current tax liabilities		28,448	34,505	31,876	26,032
Borrowings	29	12,740	6,370	–	–
Lease liabilities	17	119,780	141,377	163,181	155,427
Other current liabilities	30	56,056	70,261	80,513	82,992
Total current liabilities		1,326,456	1,588,319	1,853,753	1,839,727
Total liabilities		1,765,872	1,962,480	2,214,776	2,208,082
Total equity and liabilities		1,818,627	2,103,188	2,477,312	2,388,540
Net current liabilities		670,565	601,582	544,273	638,163
Total assets less current liabilities		492,171	514,869	623,559	548,813

BALANCE SHEET OF THE COMPANY

	<u>Note</u>	As at 30 June 2022
		<i>RMB'000</i>
Non-current assets		
Investment in a subsidiary	39	<u>97,156</u>
Total non-current assets		<u>97,156</u>
Current assets		
Prepayments, deposits and other receivables	25	76,605
Cash and cash equivalents	26	<u>4,213</u>
Total current assets		<u>80,818</u>
Total assets		<u><u>177,974</u></u>
LIABILITIES		
Current liabilities		
Other payables	31	<u>18,187</u>
Total current liabilities		<u>18,187</u>
Total liabilities		<u><u>18,187</u></u>
EQUITY		
Share capital		7
Share premium		84,358
Other reserves	28	90,661
Accumulated losses		<u>(15,239)</u>
Total equity		<u><u>159,787</u></u>
Total equity and liabilities		<u><u>177,974</u></u>
Net current assets		<u><u>62,631</u></u>
Total assets less current liabilities		<u><u>159,787</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Company						
	Note	Share capital	Other	(Accumulated	Total	Non-	Total equity
		(Note 27)	reserves	losses)/		controlling	
	RMB'000	(Note 28)	Retained	earnings	interests	RMB'000	
Balance at 1 January 2019		-	4,287	(16,755)	(12,468)	2,325	(10,143)
Profit for the year		-	-	140,329	140,329	7,094	147,423
Other comprehensive loss		-	(1)	-	(1)	-	(1)
Total comprehensive income		-	(1)	140,329	140,328	7,094	147,422
Transactions with owners							
Acquisition of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme	28	-	(12,421)	-	(12,421)	-	(12,421)
Capital injection		-	3,486	-	3,486	-	3,486
Share-based payment expenses	20	-	1,592	-	1,592	-	1,592
Transactions with non-controlling interests		-	(107)	-	(107)	47	(60)
Dividends declared	14	-	-	(73,072)	(73,072)	(4,049)	(77,121)
		-	(7,450)	(73,072)	(80,522)	(4,002)	(84,524)
Balance at 31 December 2019		-	(3,164)	50,502	47,338	5,417	52,755
Balance at 1 January 2020		-	(3,164)	50,502	47,338	5,417	52,755
Profit for the year		-	-	150,959	150,959	1,226	152,185
Other comprehensive loss		-	(3)	-	(3)	-	(3)
Total comprehensive income		-	(3)	150,959	150,956	1,226	152,182

Equity attributable to owners of the Company						
Note	Share capital (Note 27)	Other reserves (Note 28)	(Accumulated	Total	Non- controlling interests	Total equity
			losses)/ Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Transactions with owners						
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	200	(200)	-	-	-
Share-based payment expenses	20	6,282	-	6,282	706	6,988
Disposal of subsidiary	36	-	-	-	(6,423)	(6,423)
Transactions with non-controlling interests	28	4,137	-	4,137	3,859	7,996
Dividends declared	14	-	(67,840)	(67,840)	(4,950)	(72,790)
	-	10,619	(68,040)	(57,421)	(6,808)	(64,229)
Balance at 31 December 2020	-	7,452	133,421	140,873	(165)	140,708
Balance at 1 January 2021	-	7,452	133,421	140,873	(165)	140,708
Profit for the year	-	-	193,475	193,475	14,866	208,341
Other comprehensive loss	-	(105)	-	(105)	-	(105)
Total comprehensive income	-	(105)	193,475	193,370	14,866	208,236
Transactions with owners						
Disposal of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme	28	18,325	-	18,325	-	18,325
Share-based payment expenses	20	5,802	-	5,802	488	6,290
Transactions with non-controlling interests	28	(23,389)	-	(23,389)	1,748	(21,641)
Share reform	27	60,059	(60,059)	-	-	-
Others	-	(2,705)	-	(2,705)	-	(2,705)
Dividends declared	14	-	(74,913)	(74,913)	(11,764)	(86,677)
	-	58,092	(134,972)	(76,880)	(9,528)	(86,408)
Balance at 31 December 2021	-	65,439	191,924	257,363	5,173	262,536

Equity attributable to owners of the Company						
Note	Share capital (Note 27)	Other reserves (Note 28)	(Accumulated losses)/ Retained earnings		Non- controlling interests	Total equity
			Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
Balance at 1 January 2021	-	7,452	133,421	140,873	(165)	140,708
Profit for the period	-	-	96,947	96,947	8,160	105,107
Other comprehensive loss	-	53	-	53	-	53
Total comprehensive income	-	53	96,947	97,000	8,160	105,160
Transactions with owners						
Share-based payment expenses	20	2,852	-	2,852	-	2,852
Dividends declared	14	-	(74,913)	(74,913)	(3,051)	(77,964)
	-	2,852	(74,913)	(72,061)	(3,051)	(75,112)
Balance at 30 June 2021	-	10,357	155,455	165,812	4,944	170,756

Equity attributable to owners of the Company							
Note	Share capital (Note 27)	Other reserves (Note 28)	(Accumulated losses)/ Retained earnings		Non- controlling interests	Total equity	
			Total				
	RMB'000	RMB'000	Share premium (Note 28)	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2022	-	65,439	-	191,924	257,363	5,173	262,536
Profit for the period	-	-	-	15,123	15,123	4,726	19,849
Other comprehensive loss	-	(74)	-	-	(74)	-	(74)
Total comprehensive income	-	(74)	-	15,123	15,049	4,726	19,775
Transactions with owners							
Issuance of ordinary shares to shareholders	27	3,971	-	-	3,971	-	3,971
Capital injection from non-controlling interests	-	-	-	-	-	8,708	8,708
Share-based payment expenses	20	6,416	-	-	6,416	3	6,419
Transactions with non-controlling interests	28	1,408	-	-	1,408	123	1,531
Dividends declared	14	-	-	(120,000)	(120,000)	(2,482)	(122,482)
Completion of reorganisation	28	(84,365)	84,358	-	-	-	-
	7	(72,570)	84,358	(120,000)	(108,205)	6,352	(101,853)
Balance at 30 June 2022	7	(7,205)	84,358	87,047	164,207	16,251	180,458

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
Cash flows from operating activities						
Cash generated from operations	33(a)	495,692	717,234	715,862	281,230	151,726
Income tax paid		(32,382)	(36,702)	(45,929)	(26,481)	(23,041)
Net cash inflow from operating activities		<u>463,310</u>	<u>680,532</u>	<u>669,933</u>	<u>254,749</u>	<u>128,685</u>
Cash flows from investing activities						
Payment for acquisition of subsidiaries, net of cash acquired	36(b)	-	(5,529)	(11,297)	-	(232)
Purchases of property, plant and equipment and other non-current assets		(107,828)	(67,506)	(133,169)	(49,847)	(51,145)
Proceeds from sale of property, plant and equipment and other non-current assets		-	3,184	-	13	69
Proceeds from disposal of subsidiaries, net off cash disposed	41	-	(19,978)	3,663	-	(2,125)
Proceeds from redemption of wealth management products	3.3	429,518	785,526	1,369,976	727,046	743,027
Purchase of wealth management products	3.3	(647,080)	(1,071,590)	(1,614,520)	(770,260)	(516,600)
Proceeds from disposal of financial assets at FVOCI	3.3	1,743	-	-	-	-
Borrowings to a related party	34(b)	(5,000)	-	-	-	-
Repayment of borrowings from related parties	34(b)	71,915	6,950	-	-	-
Net cash generated from/(used in) investing activities		<u>(256,732)</u>	<u>(368,943)</u>	<u>(385,347)</u>	<u>(93,048)</u>	<u>172,994</u>

Note	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Cash flows from financing activities					
Repayments of borrowings	33(c)	(11,830)	(12,740)	(6,370)	–
Interest paid		(1,440)	(1,103)	(17)	–
Dividends paid	33(c)	(80,659)	(106,751)	(81,156)	(122,566)
Payment of lease liabilities	17(b)	(147,297)	(160,732)	(91,633)	(118,022)
Consideration (paid)/received for (acquisition)/disposal of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme	28	(12,421)	–	18,325	–
Transactions with non-controlling interests	28	(60)	7,996	(21,641)	1,531
Initial public offering costs		–	–	–	(2,733)
Capital injection from a shareholder		–	–	–	3,976
Capital injection from non-controlling interests		3,486	–	–	7,708
Other payment for financing activities		–	–	(2,705)	–
Proceeds from the owners of Shanghai Beauty Farm	1.2	–	–	–	119,235
Capital deduction from the owners of Shanghai Beauty Farm	1.2	–	–	–	(198,808)
Net cash used in financing activities		<u>(250,221)</u>	<u>(273,330)</u>	<u>(271,065)</u>	<u>(309,679)</u>
Net (decrease)/increase in cash and cash equivalents					
Cash and cash equivalents at beginning of the year/period		148,774	104,819	143,538	157,284
Exchange (losses)/gains on cash and cash equivalents		(312)	460	225	412
Cash and cash equivalents at end of the year/period	26	<u>104,819</u>	<u>143,538</u>	<u>157,284</u>	<u>149,696</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 GENERAL INFORMATION OF THE GROUP, REORGANISATION AND BASIS OF PRESENTATION****1.1 General information**

Beauty Farm Medical and Health Industry Inc. (the "Company") was incorporated in the Cayman Islands on 10 February 2022. The address of its registered office is Floor 4, Willow House, Cricket Square, Grand Cayman, KY1-9010, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in providing beauty and health management service, including traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services (the "Listing Business") in the People's Republic of China (the "PRC"). The ultimate controlling parties of the Group are Mr. Li Yang ("Mr Li"), Ms. Li Fangyu ("Ms Li"), Mr. Lian Songyong, Ms. Niu Guifen, Mr. Cui Yuanjun and Mr. Yuan Huimin (together as the "Controlling Shareholders"), who are parties acting in concert and have been collectively controlling the Group.

1.2 Reorganisation

Immediately prior to the Reorganisation (as defined below) and during the Track Record Period, the Listing Business was operated by Shanghai Beauty Farm Healthcare Industry Co., Ltd. ("Shanghai Beauty Farm", previously named as Hainan Beauty Farm Healthcare Industry Co., Ltd.) and its subsidiaries in the PRC (the "Operating Companies"). The Listing Business is controlled by the Controlling Shareholders throughout the Track Record Period.

In preparation for the initial public offering ("IPO") and listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, a group reorganisation (the "Reorganisation") was undertaken pursuant to which the Operating Companies engaged in the Listing Business were transferred to the Company. The Reorganisation involves the following major steps:

(a) Establishment of contractual arrangement

As part of Reorganisation, Shanghai Beauty Farm transferred part of its equity interest in medical institutions, being businesses subject to foreign investment restrictions in the PRC, to Shanghai Liernuo Industry Development Co., Ltd. ("Shanghai Liernuo"). The interest transferred to Shanghai Liernuo is at least 30% of the equity interest in each of the medical institutions.

On 13 April 2022, in order to comply with relevant foreign investment restrictions in the PRC and maintain effective control over the operation of Shanghai Liernuo, Shanghai Beauty Farm, Shanghai Liernuo, Mr. Li and the operating companies of the foreign investment restricted business entered into a series of contractual arrangement (collectively the "Contractual Arrangements"), providing the Group with effective control over, and to consolidate all economic benefits arising from Shanghai Liernuo into the Group.

(b) Establishment of offshore corporate structure and introduction of foreign investor to Shanghai Beauty Farm

On 10 February 2022, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. The Company then established Beauty Farm Medical and Health Industry Limited, a wholly owned subsidiary incorporated in Hong Kong with limited liability on 22 February 2022 and Aiyumei (Shanghai) Enterprise Management Co., Ltd. ("Shanghai Aiyumei"), a wholly foreign owned enterprise and a subsidiary of the Company in the PRC on 10 March 2022.

After incorporation of the Company, on 23 February 2022, Mr. Zang Ye, an independent third party who is independent from the Company and its connected persons, subscribed for RMB2,041,000 in the registered capital of Shanghai Beauty Farm (representing 0.2% of Shanghai Beauty Farm's equity interest) at a consideration of RMB3,971,000 ("Pre-IPO Investment"). Upon completion of the Pre-IPO Investment, Shanghai Beauty Farm was converted into a sino-foreign joint venture entity.

(c) Injection of Shanghai Beauty Farm into the listing Group

On 10 March 2022, the then shareholders of Shanghai Beauty Farm transferred their equity interest in Shanghai Beauty Farm to Shanghai Aiyumei for a cash consideration of RMB198,808,000.

On 11 March 2022, ZYLot Holdings Limited completed a RMB3,976,000 investment in the Company for 0.2% of the Company's issued share capital and the Company accounted for the surplus amounted to RMB3,971,000 on capital contribution from ZYLot Holdings Limited in other reserves.

As part of the reorganization and upon receiving the cash consideration, the certain then shareholders of Shanghai Beauty Farm injected the cash to the Group amounted to RMB119,235,000 after deduction of reorganization cost of RMB7,279,000 (Note 9) during the six months ended 30 June 2022. As of 30 June 2022, the consideration had not been received from CITIC Private Equity Funds Management Co., Ltd. ("CITIC PE") of RMB72,294,000, and was recorded as amount due from related parties (Note 34(c)(b)). The receivable was subsequently collected on 1 July 2022.

On 21 April 2022, CITIC PE, one of the shareholders of Shanghai Beauty Farm, through Beijing Xinyu Meiye Holdings Limited, was issued and allotted 37,040,000 preferred shares in the Company at a consideration of RMB72,294,000 upon obtaining its overseas direct investment regulatory approval and the Company accounted for the surplus amounted to RMB72,292,000 on capital contribution from CITIC PE in other reserves. The preferred shares will be automatically converted into ordinary shares of the Company on an one to one basis upon listing.

After the completion of Reorganisation steps as described above, the Company became the holding company of the subsidiaries now comprising the Group. Particulars of the principal subsidiaries of the Group are set out in Note 38.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is conducted through Operating Companies which were all ultimately controlled by Controlling Shareholders. Pursuant to the Reorganisation, the Listing Business are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a recapitalisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remained the same. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the Listing Business under Shanghai Beauty Farm and, for the purpose of this report, the Historical Financial Information of the Group is presented using the carrying values of the Listing Business for all periods presented.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA under the historical cost convention, except for the revaluation of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are stated at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

2.1.1 Going concern

As at 30 June 2022, the Group had a net current liability position of approximately RMB638,163,000. Besides, up to the date of this report, capital commitment in relation to construction and acquisition of property, plant and equipment within twelve months amounted to approximately RMB23,677,000, while its cash and cash equivalents amounted to RMB149,696,000.

Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. Management of the Group has prepared a cash flow projection covering a period of not less than 12 months from 30 June 2022.

The Directors have reviewed the Group's cash flow projection and have considered the basis and assumptions of management's projections. The Directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2022. Accordingly, the Historical Financial information has been prepared on a going concern basis.

2.1.2 New and amended standards adopted by the Group

HKFRS 9, "Financial instruments" and HKFRS 15, "Revenue from contracts with customers" are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. HKFRS 16, "Leases" is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Group has adopted HKFRS 9, HKFRS 15 and HKFRS 16 consistently throughout the Track Record Period.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on 1 January 2019, are consistently applied to the Group for the Track Record Period.

2.1.3 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 the reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The following new standards and amendments to existing standards have been issued but are not yet effective and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1 (Amendment) and HKFRS Practice Statement 2 (Amendment)	Disclosure of Accounting Policy	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimate	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2.1.4 Contractual Arrangements

Due to the restrictions imposed by the relevant laws and regulatory regime of the PRC on foreign ownership of companies engaged in the aesthetic medical services and subhealth assessment and intervention services carried out by 20 subsidiaries of the Group (together as the "Medical Institutions") including:

Shanghai Xiukeer Clinic Co., Ltd.* (上海秀可兒門診部有限公司)
 Ningbo Jiangbei Yongjiang Xiukeer Medical Beauty Clinic Co., Ltd.* (寧波江北甬江秀可兒醫療美容診所有限公司)
 Nanjing Xiukeer Medical Beauty Clinic Co., Ltd.* (南京秀可兒醫療美容診所有限公司)
 Shenzhen Xiukeer General Outpatient Department* (深圳秀可兒綜合門診部)
 Hangzhou Liyan Medical Beauty Clinic Co., Ltd.* (杭州麗研醫療美容診所有限公司)
 Zhengzhou Liyan Medical Beauty Service Co., Ltd.* (鄭州麗研醫療美容服務有限公司)
 Haikou Meilan Meishuyue Medical Beauty Clinic Co., Ltd.* (海口美蘭美束悅醫療美容門診部有限公司)
 Beijing Hexin Medical Beauty Clinic Co., Ltd.* (北京禾欣醫療美容門診部有限公司)
 Beijing Yanyuan Clinic Co., Ltd.* (北京研源診所有限公司)
 Chengdu Gaoxin Xiuke'er Medical Beauty Clinic Co., Ltd.* (成都高新秀可兒醫療美容診所有限公司)
 Chongqing Xiukeer General Outpatient Department Co., Ltd.* (重慶秀可兒綜合門診部有限公司)
 Xi'an Meiju Medical Technology Development Co., Ltd.* (西安美聚醫療科技發展有限公司)
 Wuhan Qiyan General Outpatient Department Co., Ltd.* (武漢啟研綜合門診部有限公司)
 Beijing Meishu Laser Medical Clinic Co., Ltd.* (北京美束激光醫療診所有限公司)
 Changchun Meiju Medical Technology Development Co., Ltd.* (長春美聚醫療科技發展有限公司)
 Qingdao Aimei Medical Beauty Co., Ltd.* (青島艾美醫療美容有限公司)
 Haikou Xiuke'er Medical Beauty Clinic Co., Ltd.* (海口秀可兒醫療美容門診部有限公司)
 Xian Beilin Xiuke'er General Outpatient Department Co., Ltd.* (西安碑林秀可兒綜合門診部有限公司)
 Haikou Yanyuan Clinic Co., Ltd.* (海口研源診所有限公司)
 Hefei Xiukeer Medical Beauty Clinic Co., Ltd.* (合肥秀可兒醫療美容診所有限公司)

Shanghai Beauty Farm and Mr Li entered into the contractual arrangements (the “Contractual Arrangements”) with Shanghai Liernuo and its registered shareholders who hold 30% equity interests of the Medical Institutions on 13 April 2022, which enable the Group to:

- expose, or have rights, to variable returns from their involvement with the investee and have ability to affect those returns through its power over Shanghai Liernuo;
- exercise equity holders’ voting rights of Shanghai Liernuo and the Medical Institutions; receive the economic interest returns generated by Medical Institutions in consideration for the technical support, consulting services and other services provided by Shanghai Liernuo;
- obtain an irrevocable and unconditional right to purchase all or part of equity interests in Medical Institutions from Shanghai Liernuo itself or its designated person(s) at minimum purchase price permitted under PRC law. Shanghai Beauty Farm or its designated person may exercise such options at any time until it has acquired all equity interests and/or all assets of the Medical Institutions; and
- obtain a pledge over the entire equity interest of the Shanghai Liernuo from Mr. Li and the equity interest of the Medical Institutions held by Shanghai Liernuo as collateral security to guarantee performance of their contractual obligations under the Contractual Arrangements.

The Group does not have any legal equity interest in Shanghai Liernuo. However, as a result of the Contractual Arrangements, the Group has power over Shanghai Liernuo, has rights to variable returns from its involvement with Shanghai Liernuo and has the ability to affect those returns through its power over Shanghai Liernuo and is considered to have control over Shanghai Liernuo. Consequently, the Company regards Shanghai Liernuo as controlled structure entities and consolidated the financial position and result of operations of Shanghai Liernuo upon the execution of the Contractual Agreements.

2.2 Principles of combination

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group not under common control (Note 2.3).

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, statements of changes in equity and balance sheets respectively.

(ii) *Changes in ownership interests in subsidiaries without change of control*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in other reserves within equity attributable to owners of the Company.

2.3 Business combinations not under common control

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the following:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker of the Company assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision maker of the Group consists of the executive directors and the chief financial officer.

2.6 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi (RMB), which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(iii) *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

2.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values of 5% over their estimated useful lives as follows:

Buildings	20 years
Electronic equipment and vehicles	5 years
Beauty equipment	5 years
Office furniture	5 years
Long-term leasehold improvement	Shorter of the lease term and the estimated useful life

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

Construction-in-progress is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

2.8 Investment properties

Investment properties, principally leasehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at cost less accumulated depreciation and impairment losses.

Depreciation of the investment properties is calculated using the straight-line method to allocate cost over their estimated useful lives of 20 to 50 years.

2.9 Intangible assets

(i) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. One of the trademarks has an infinite useful life and is subsequently carried at cost less impairment losses. Those trademarks with finite useful life are subsequently carried at cost less accumulated amortisation and impairment losses.

(ii) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives.

(iii) Customer relationships

Customer relationships, which are acquired during business combinations, are recognised at fair value at the acquisition date. Customer relationships are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful lives.

(iv) Research and Development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and developing of new or improved products and processes) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(v) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Trademarks with finite useful life	10 years
Software	10 years
Customer relationships	7-8 years

Management estimated the useful life of the trademarks and software based on license period, expected technical obsolescence and innovations. Management estimated the useful life of customer relationships based on their industry knowledge, experience and judgement and took into account the historical customers renewal pattern of the acquired subsidiary. Thus the useful life for the customer relationships are 7~8 years.

2.10 Goodwill

Goodwill is measured as described in Note 2.3. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the city or region of business that goodwill is attributable to.

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Investments and other financial assets**(i) Classification**

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other

gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables (Note 25).

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Costs of purchased inventory comprise the purchase price (net off discounts), freight charges, duty and other miscellaneous charges. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

2.14 Trade and other receivables

Trade receivables and notes receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business. If collection of trade receivables and notes receivables is expected in one year or less (or in the normal operating cycle of business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and notes receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 3.1 for further information about the Group's accounting for trade and other receivable and Note 2.11 for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank deposits which are restricted to use are included in "restricted cash" of the consolidated balance sheets. Restricted cash is excluded from cash and cash equivalents.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Given the Group has no qualifying assets during the Track Record Period, all borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the regions where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(ii) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.20 Employee benefits

(i) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

(ii) *Pension obligations*

Full-time employees in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulae. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no further payment obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined contribution pension plans even if the employee leaves.

(iii) *Housing funds, medical insurances and other social insurances*

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(iv) *Bonus entitlements*

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.21 Share-based payments

Share-based compensation benefits are provided to employees via the employee share scheme. Information relating to these schemes is set out in Note 20.

The fair value of awarded shares granted to employees under the employee share scheme less amount paid by employees is recognised as an employee benefits expense over the relevant service period, being the vesting period of the shares, and the credit is recognised in equity in the share-based payment reserves. The fair value of the shares is measured at the grant date.

(i) *Share Award Scheme*

The Group operates an equity-settled, share-based compensation plan (the "Share Award Scheme"), under which the Group receives services from employees as consideration for equity instruments (shares) of the Group. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- excluding the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(ii) *Share awards given by the Group's subsidiaries*

Shares of subsidiaries of the Group are awarded to certain registered practitioners, including store directors, regional managers, senior operation managers, in respect of their future services for the Group. The fair value of such shares less consideration paid by registered practitioners is recognised as registered practitioner expenses with a corresponding increase in non-controlling interests within equity.

The fair value of such share awards is spread into expense over the vesting periods after the grant date.

2.22 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.23 Revenue recognition

The Group is principally engaged in provision of traditional beauty services, subhealth assessment and intervention services, aesthetic medical services. Revenue comprises the fair value of the consideration received or receivable for the sales of products and services rendered in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, refunds discounts and after eliminating sales within the Group.

Further details of the Group's revenue recognition policies are as follows:

(i) Sales of services

The Group sells prepaid card to end customers, which gives the right to end customers to redeem multiple services. Contract liabilities are recognised when the Group receives cash consideration from end customers. The total consideration is allocated to multiple performance obligations under the prepaid card based on their relative stand-alone selling prices.

Revenue is recognised when the services are rendered or the likelihood of the end customer exercising its remaining rights becomes remote. Based on the historical data, the Group determines no consumption for 3 years as customer churn and recognises the unutilised packages in the prepaid card of these inactive end customers as revenue.

When there is a modification to the contract, for example, provision of additional distinct services to the end customer without any additional charge, the Group accounts for the modification prospectively. The contract consideration, which is the unrecognised consideration initially included in the transaction price of the contract before the modification, is allocated to the remaining performance obligations after the modification, including any unsatisfied performance obligations from the original contract.

The Group also pays sales commission to salesmen, which are treated as acquisition cost to obtain a contract. The Group applies the practical expedient to expense the acquisition cost because the amortization period is normally within one year or less.

(ii) Sales of products

The Group also generates revenue from sales of skincare products to customers. Revenue from the sale of skincare products is recognised when customers accept the products.

(iii) Franchise fee

The Group as the franchisor enters into franchise agreement with franchisee for 3 to 5 years. Franchise is a right to access license because the Group shall undertake activities that significantly affect the license, either positive or negative. Franchisee pays a fixed upfront fee and revenue from franchise fee is recognised over the franchise period. Training fee and other service fee are recognised when the services are rendered.

2.24 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see Note 22.

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate, the LPR rates when the leases were signed. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

2.26 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge certain risk exposures during the Track Record Period.

(a) Market risk

Foreign exchange risk

The Group mainly operates in mainland China and is exposed to foreign exchange risk arising from currency exposures with respect to USD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hedge against any fluctuation in foreign currency.

At 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022, if USD had weakened/strengthened by 5% against the foreign currencies with all other variables held constant, post-tax profit for the year would have been RMB222,000, RMB285,000, RMB252,000 and RMB262,000 respectively lower/higher mainly as a result of foreign exchange gains/losses on translation of foreign currencies cash and cash equivalents.

(b) *Credit risk*

The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, trade receivables and notes receivables, deposit and other receivables and financial assets at FVPL. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) *Credit risk of cash and cash equivalents, restricted cash and financial assets at FVPL*

To manage the risk arising from credit risk of cash and cash equivalents, restricted cash and financial assets at FVPL, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss of cash and cash equivalents is close to zero.

(ii) *Credit risk of trade receivables*

The majority of the Group's sales are settled through credit cards or e-pay applications against payment without credit terms. The remaining sales, such as to the shopping malls, are settled with credit terms ranging from 14 days to 90 days. The Group applies the HKFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of PRC to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. The utilisation of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties (Note 25).

(iii) *Credit risk of deposits and other receivables*

The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition.

As at 31 December 2019, 2020, 2021 and 30 June 2022, there was no significant increase in credit risk since initial recognition of deposits and other receivables. The assessment the Group made regarding the expected credit losses for these receivables in 12 months were illustrated in Note 25.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2019					
Borrowings	12,759	6,380	–	–	19,139
Lease liabilities	146,590	157,282	229,663	92,575	626,110
Trade payables	30,022	–	–	–	30,022
Other payables and accruals (excluding employee benefits payables and tax payables)	88,250	–	–	–	88,250
	<u>277,621</u>	<u>163,662</u>	<u>229,663</u>	<u>92,575</u>	<u>763,521</u>
At 31 December 2020					
Borrowings	6,380	–	–	–	6,380
Lease liabilities	175,659	138,381	196,837	68,562	579,439
Trade payables	17,820	–	–	–	17,820
Other payables and accruals (excluding employee benefits payables and tax payables)	67,878	–	–	–	67,878
	<u>267,737</u>	<u>138,381</u>	<u>196,837</u>	<u>68,562</u>	<u>671,517</u>
At 31 December 2021					
Lease liabilities	179,017	128,309	191,125	68,852	567,303
Trade payables	15,436	–	–	–	15,436
Other payables and accruals (excluding employee benefits payables and tax payables)	90,409	–	–	–	90,409
	<u>284,862</u>	<u>128,309</u>	<u>191,125</u>	<u>68,852</u>	<u>673,148</u>
As at 30 June 2022					
Lease liabilities	171,490	133,041	202,088	61,008	567,627
Trade payables	29,304	–	–	–	29,304
Other payables and accruals (excluding employee benefits payables and tax payables)	82,655	–	–	–	82,655
	<u>283,449</u>	<u>133,041</u>	<u>202,088</u>	<u>61,008</u>	<u>679,586</u>

3.2 Capital management

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, lease liabilities less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheets plus net debt.

The gearing ratios as at 31 December 2019, 2020, 2021 and 30 June, 2022 were as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Borrowings (Note 29)	19,110	6,370	–	–
Lease liabilities (Note 17)	549,880	509,320	515,460	513,755
Dividend payable (Note 31)	33,961	–	5,521	5,437
Less: Cash and cash equivalents (Note 26)	(104,819)	(143,538)	(157,284)	(149,696)
Net debt	498,132	372,152	363,697	369,496
Total equity	52,755	140,708	262,536	180,458
Total capital	550,887	512,860	626,233	549,954
Gearing ratio	90%	73%	58%	67%

During the track record period, the gearing ratio gradually decreased from 90% to 58% from 31 December 2019 to 31 December 2021 contributed by decrease of net debt and increased equity arisen from operation excluding dividend declared and increased to 67% from 31 December 2021 to 30 June 2022 contributed by decreased equity arisen from dividends declared.

3.3 Fair value estimation

Financial assets and liabilities

The Group measures its financial assets at FVPL and FVOCI at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset either in the principal market for the asset, or in the absence of a principal market, in the most advantageous market for the asset. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements

At 31 December 2019	<i>Note</i>	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets at FVPL					
– Wealth management products	22	–	–	358,898	358,898
Financial assets at FVOCI					
– Equity securities		–	–	182	182
Total financial assets		–	–	359,080	359,080

Recurring fair value measurements

At 31 December 2020	<i>Note</i>	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets at FVPL					
– Wealth management products	22	–	–	658,387	658,387
Financial assets at FVOCI					
– Equity securities		–	–	179	179
Total financial assets		–	–	658,566	658,566

Recurring fair value measurements

At 31 December 2021	<i>Note</i>	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets at FVPL					
– Wealth management products	22	–	–	926,338	926,338
Financial assets at FVOCI					
– Equity securities		–	–	74	74
Total financial assets		–	–	926,412	926,412

Recurring fair value measurements

At 30 June 2022	<i>Note</i>	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets at FVPL					
– Wealth management products	22	–	–	709,736	709,736
Financial asset at FVOCI					
– Equity securities		–	–	–	–
Total financial assets		–	–	709,736	709,736

The fair value of wealth management products that are not traded in an active market is determined by using valuation techniques, which include the use of quoted prices from the relevant financial institutions.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

The carrying amounts of the Group's current financial assets, including cash at banks, trade receivables and notes receivables, deposits and other receivables; and the Group's current financial liabilities, including trade payables, accruals and other payables and lease liabilities approximate their fair values due to their short maturities.

The following table presents the changes in level 3 items for the years ended 31 December 2019, 2020, 2021 and for the six months ended 30 June 2022:

	Wealth management product	Equity securities	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance as at 1 January 2019	133,320	1,926	135,246
Acquisitions	647,080	–	647,080
Redemption upon maturity	(429,518)	–	(429,518)
Disposal	–	(1,743)	(1,743)
Net fair value gains on financial assets at FVPL	8,016	–	8,016
Change in fair value through OCI	–	(1)	(1)
Closing balance as at 31 December 2019	358,898	182	359,080
Acquisitions	1,071,590	–	1,071,590
Redemption upon maturity	(785,526)	–	(785,526)
Net fair value gains on financial assets at FVPL	13,425	–	13,425
Change in fair value through OCI	–	(3)	(3)
Closing balance as at 31 December 2020	658,387	179	658,566
Acquisitions	1,614,520	–	1,614,520
Redemption upon maturity	(1,369,976)	–	(1,369,976)
Net fair value gains on financial assets at FVPL	23,407	–	23,407
Change in fair value through OCI	–	(105)	(105)
Closing balance as at 31 December 2021	926,338	74	926,412
Acquisitions	516,600	–	516,600
Redemption upon maturity	(743,027)	–	(743,027)
Net fair value gains on financial assets at FVPL	9,825	–	9,825
Change in fair value through OCI	–	(74)	(74)
Closing balance as at 30 June 2022	<u>709,736</u>	<u>–</u>	<u>709,736</u>

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of wealth management product:

Description	Fair Value				Significant unobservable inputs	Range of inputs				Relationship of unobservable inputs to fair value
	As at 31 December					As at 30 June				
	2019	2020	2021	2022		2019	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	
Wealth management product	358,898	658,387	926,338	709,736	Discount rates	2.55%-4.32%	2.42%-4.15%	2.41%-4.55%	2.26%-4.60%	The higher the discount rate, the lower the fair value

If the discount rate for level 3 fair value measurement had been 10% higher/lower, the fair values of wealth management products for the years ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2022 would have been approximately RMB531,000, RMB725,000, RMB945,000 and RMB576,000 lower/higher, respectively.

Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and the valuation team at least once every six months, in line with the group's half-yearly reporting periods.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from credit risk gradings determined by the Group's internal credit risk management group.

Changes in level 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the CFO and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of historical financial information requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment of goodwill and trademark with infinite useful life

During the years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2021 and 2022, management conducted an impairment review on goodwill and trademark with infinite useful life. For the reporting periods, the recoverable amount of cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 21. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions are disclosed in Note 21.

(b) Revenue recognised from unutilised prepaid packages

Most of Group's services are sold on a prepaid basis and offer a variety of prepaid packages. When a customer prepays for a service or product, the relevant payment is recorded as contract liabilities in consolidated statements of financial position until the Group recognise revenue from the relevant prepaid package. These prepayments give the customer a right to receive services or products in the future (and oblige the Group to stand ready to provide services or products). However, customers may not exercise all of their contractual rights for various reasons. Those expected unexercised rights are referred to as "forfeited income".

The expected unexercised rights on prepaid packages are estimated by management based on historical customer behaviour and usage pattern and are recognised as revenue when the customers are inactive for 3 years and the likelihood of the customer exercising its remaining rights becomes remote. Forfeited income will be recognised in the consolidated statements of comprehensive income. For the year ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2021 and 2022, the Group recognised the net forfeited income amounted to RMB10,186,000, RMB13,414,000, RMB14,986,000, RMB5,113,000 and RMB11,716,000 respectively in consolidated statements of comprehensive income.

(c) Current and deferred income tax

The Group is subject to corporate income taxes in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets.

Management performs periodic review of the estimated useful lives of property, plant and equipment, and will revise the depreciation charges where estimated useful lives are different than those previously estimated.

(e) Fair value assessment of the trademarks and customer relationships and the recognition of goodwill arising from business combinations

Significant judgements and estimates were involved in the fair value assessment of the identified trademarks and customer relationships and the recognition of goodwill arising from business combinations. These significant judgements and estimates include the adoption of appropriate valuation methodologies and the use of key assumptions in the valuation (mainly annual revenue growth rate, gross profit margins, discount rates and expected useful lives of customer relationships).

(f) Contractual arrangement

Due to the regulatory restrictions on the foreign ownership of the certain part of Listing Business in the PRC, the Group does not have any legal equity interest in Shanghai Liernuo. The Directors assessed whether or not the Group has control over Shanghai Liernuo by assessing whether it has the rights to variable returns from its involvement with Shanghai Liernuo and the Medical Institutions and has the ability to affect those returns through its power over Shanghai Liernuo and the Medical Institutions. After assessment, the Directors concluded that the Group has control over Shanghai Liernuo and the Medical Institutions as a result of the Contractual Arrangements and accordingly the financial position

and the operating results of Shanghai Liernuo and the Medical Institutions can be included in the Group's consolidated financial statements. Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shanghai Liernuo and the Medical Institutions and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Shanghai Liernuo and the Medical Institutions. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements with Shanghai Liernuo, the Medical Institutions and their equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and chief financial officer. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources.

The executive committee has determined that no business segment information is presented as all business segments are with similar economic characteristics.

The executive committee has also determined that no geographical segment information is presented as all business performance are generated from mainland China.

6 REVENUE & CONTRACT LIABILITIES

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the service at a point in time and over time and the transfer of goods at a point in time in the following major revenue streams:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Traditional beauty services					
– Direct stores (at a point in time)					
– Services	717,358	680,727	857,295	391,244	352,654
– Product Sales	42,468	76,281	84,062	31,979	30,390
– Franchised and others					
– Product sales (at a point in time)	110,513	86,805	101,816	44,668	42,027
– Franchise fee (over time)	5,474	4,297	3,611	1,321	2,971
Subtotal	875,813	848,110	1,046,784	469,212	428,042
Subhealth assessment and intervention services					
– Services recognised at a point in time	64,353	91,110	43,772	22,699	20,555
– Services recognised over time	–	–	17,159	6,285	10,165
Subtotal	64,353	91,110	60,931	28,984	30,720
Aesthetic medical services					
– recognised at a point in time	464,586	564,076	673,025	338,634	275,556
Total	1,404,752	1,503,296	1,780,740	836,830	734,318

Revenues from external customers come from the rendering of service and sales of the products including traditional beauty services, subhealth assessment and intervention services, aesthetic medical services.

Subhealth assessment and intervention services recognised over time are cooperation fee received from Hainan Qiyang Stem Cell Anti-aging Hospital Co., Ltd. after disposal from the Group in December 2020. Such services include customer referral and consulting services, logistics arrangement services, customer post-treatment caring services rendered to Hainan Qiyang Stem Cell Anti-aging Hospital Co., Ltd., which were disclosed in Note 34(b).

No significant revenue comes from a single external customer. There is no customer contributing more than 10% of revenue. Most of the Group's customers are individuals, which are widely distributed.

The Group is domiciled in China. All of its sales from external customers are generated in China.

(b) Liabilities related to contracts with customers

(i) The Group has recognised the following liabilities related to contracts with customers:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Contract liabilities – services and product sales	914,730	1,155,062	1,347,685	1,387,521

The Group classified 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.

The products are sold on a prepaid basis. When the franchised stores prepay for a product, the relevant payment is recorded as contract liabilities in the consolidated balance sheets until the Group recognizes revenue upon delivery of products to the franchised stores.

(ii) *Significant changes in contract liabilities*

During the Track Record Period, contract liabilities have increased as a result of the business expansion which led to the increase in the number of direct stores and members.

(iii) *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:

	Year ended 31 December			Six months ended	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period					
Services and product sales	457,856	506,516	709,309	483,457	454,540

(Unaudited)

(iv) The following table shows the movement of contract liabilities for the periods indicated:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Balance at the beginning of the year/period	835,188	914,730	1,155,062	1,347,685
Net forfeited income recognised during the year/period	(10,186)	(13,414)	(14,986)	(11,716)
Revenue recognized from provision of services and product sales to end customers and franchised stores	(1,303,579)	(1,383,266)	(1,661,980)	(679,071)
Payment to franchised stores due to the services provided to our members	(3,334)	(3,910)	(4,428)	(3,242)
Net increase in contract liabilities due to the prepaid cards sold to end customers	1,311,282	1,557,397	1,745,292	699,267
Prepayments received from franchised stores and others	85,359	73,573	101,957	40,179
Acquisition of subsidiaries or business	–	26,656	26,768	–
Disposal of subsidiaries or business	–	(16,704)	–	(5,581)
	<u>914,730</u>	<u>1,155,062</u>	<u>1,347,685</u>	<u>1,387,521</u>

(c) Unsatisfied long-term contracts

Management expects that the proportion of approximately 55%, 55%, 61%, 58% of the transaction to unsatisfied obligations as of 31 December 2019, 2020, 2021 and 30 June 2022 will be recognised as revenue within next one year. The remaining will be recognised in more than one year.

7 OTHER INCOME AND OTHER EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other income					
Government grants	10,315	9,756	12,624	8,763	13,687
Interest income derived from amount due from related parties (Note 34(b))	994	-	-	-	-
Rental income	495	632	6,405	3,166	3,153
Others	4,181	1,258	1,698	409	675
	<u>15,985</u>	<u>11,646</u>	<u>20,727</u>	<u>12,338</u>	<u>17,515</u>
Other expense					
Direct cost in relation to the rental income	-	-	3,481	1,774	1,698
	<u>-</u>	<u>-</u>	<u>3,481</u>	<u>1,774</u>	<u>1,698</u>

Government grants represent subsidies from governments as industry support, contributions of the Group to employment stabilization and exemption on valued-added tax granted by the government authority in the PRC. There are no unfulfilled conditions or other contingencies attaching to these grants.

8 OTHER GAINS – NET

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net fair value gains on financial assets at FVPL	8,016	13,425	23,407	10,839	9,825
Net losses on disposal of property, plant and equipment	(2,158)	(3,882)	(2,640)	(188)	(470)
(Losses)/gains on disposal of the subsidiaries	(1,000)	310	-	-	-
Net foreign exchange gains/(losses)	312	(460)	(225)	(129)	412
Others	(2,402)	(2,505)	(2,290)	(562)	(308)
	<u>2,768</u>	<u>6,888</u>	<u>18,252</u>	<u>9,960</u>	<u>9,459</u>

9 EXPENSES BY NATURE

The expenses charged to cost of sales and services, selling expenses, research and development expenses and general and administrative expenses are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Employee benefits expenses (<i>Note 10</i>)	544,277	582,456	715,091	339,192	332,621
Products and consumables used	249,009	287,987	320,507	154,763	128,803
Depreciation of right-of-use assets (<i>Note 17</i>)	143,013	158,642	174,114	82,675	91,922
Depreciation of property, plant and equipment (<i>Note 15</i>)	70,884	90,184	85,535	41,945	43,129
Amortisation of intangible assets (<i>Note 18</i>)	9,760	10,423	12,058	6,526	7,919
Property management fee	48,148	42,298	54,527	24,684	26,086
Professional service fee	23,367	19,708	19,533	7,348	8,111
Promotion and marketing related expenses	33,132	24,426	33,433	13,181	13,588
Office expenses	20,904	21,744	23,742	10,108	7,129
Utilities	19,819	18,357	22,725	10,806	10,793
Travelling expenses	17,623	13,942	14,092	6,445	3,090
Rental expense for short-term lease and variable lease payments (<i>Note 17(b)</i>)	9,061	7,331	9,897	5,058	5,670
Bank charges	8,424	5,056	5,608	2,653	1,625
Miscellaneous expenses	8,142	10,427	10,824	3,831	2,747
Taxes and surcharges	4,798	3,814	5,378	1,901	1,704
Entertainment expenses	3,707	4,412	5,289	2,587	1,444
Listing expenses	–	–	12,063	–	24,373
Loss allowance on inventories	123	1,075	712	(839)	2,069
Reorganisation cost (<i>a</i>)	–	–	–	–	7,279
Other expenses	6,710	8,238	11,769	4,939	2,675
Total	1,220,901	1,310,520	1,536,897	717,803	722,777

(a) Reorganisation cost

For the purpose of meeting certain listing requirements on its equity interests in the consolidated PRC operating entities, the Group carried out an internal reorganisation by transfer certain equity interests of its PRC operating entities, from the equity holders of these PRC operating entities to a subsidiary under the Company. Pursuant to the reorganization of these PRC operating entities, the pertinent expenses of the equity holders in relation to the share transfer shall be borne by the Group.

10 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses	455,927	506,780	613,803	294,375	278,103
Pension costs – defined contribution plans	30,737	7,618	36,868	16,166	20,791
Welfare and other expenses	28,223	35,971	22,345	8,451	7,156
Other social security costs	19,310	15,772	23,205	10,871	13,084
Housing benefits	8,488	9,327	12,580	6,477	7,068
Share-based compensation expenses	1,592	6,988	6,290	2,852	6,419
Total employee benefit expense	<u>544,277</u>	<u>582,456</u>	<u>715,091</u>	<u>339,192</u>	<u>332,621</u>

(a) Pensions – defined contribution plans

The Group did not have any forfeited contribution for the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022 in connection with the defined contribution plan operated by local governments.

Employees of the Group are required to participate in a defined contribution plan administrated and operated by the local municipal government in the PRC. The Group contributes funds which are calculated on certain percentages of the employee salary as agreed by the local municipal government to the plan to fund the retirement benefits of the employees.

Pension costs – defined contribution plans decreased in 2020, primarily due to the reduction and exemption of pension by the local municipal government due to COVID-19 outbreak in 2020.

(b) Five highest paid individuals

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Director	2,219	–	2,763	1,222	1,639
Non-director	11,134	23,110	23,370	14,467	7,602
	<u>13,353</u>	<u>23,110</u>	<u>26,133</u>	<u>15,689</u>	<u>9,241</u>

The emolument paid to the directors of the five highest individuals is disclosed in the Note 37, while the emolument paid to the remaining individuals during the respective years is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Basic salaries	1,255	1,646	570	443	–
Bonuses	9,813	21,350	22,671	14,006	7,600
Social security costs, housing benefits and other employee benefits	66	114	129	18	2
	<u>11,134</u>	<u>23,110</u>	<u>23,370</u>	<u>14,467</u>	<u>7,602</u>

The emoluments of the non-director highest paid employees fell within the following range:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
RMB1,000,001 to RMB1,500,000	–	–	–	–	1
RMB1,500,001 to RMB2,000,000	3	1	–	2	2
RMB2,000,001 to RMB2,500,000	–	3	1	–	–
RMB2,500,001 to RMB3,000,000	–	–	–	–	1
RMB3,000,001 to RMB3,500,000	–	–	1	1	–
RMB5,500,001 to RMB6,000,000	–	–	1	–	–
RMB6,000,001 to RMB6,500,000	1	–	–	–	–
RMB8,000,001 to RMB8,500,000	–	–	–	1	–
RMB11,500,001 to RMB12,000,000	–	–	1	–	–
RMB14,000,001 to RMB14,500,000	–	1	–	–	–
	<u>4</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>

11 FINANCE COSTS – NET

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Finance income					
Interest income on bank deposits	852	1,134	1,283	606	1,038
Finance costs					
Interest expense					
– Interest charges on borrowings	(1,440)	(1,103)	(17)	(17)	–
– Interest charges for lease liabilities	(26,824)	(24,825)	(24,199)	(12,308)	(12,045)
	(28,264)	(25,928)	(24,216)	(12,325)	(12,045)
Finance costs – net	(27,412)	(24,794)	(22,933)	(11,719)	(11,007)

12 INCOME TAX EXPENSES

This note provides an analysis of the Group's income tax expense, presenting how the income tax expense is affected by non-taxable and non-deductible items.

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax – PRC income tax	44,568	42,045	44,944	27,131	17,368
(Over)/under provision in prior years	(1,409)	714	(1,644)	(1,644)	(181)
Deferred income tax (Note 32)	(10,819)	(6,413)	3,461	(3,312)	(10,996)
Income tax expense	32,340	36,346	46,761	22,175	6,191

(a) Cayman Islands

The Company is incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands and is not subject to Cayman Islands income tax.

(b) 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.

(c) PRC corporate income tax ("CIT")

PRC CIT was calculated on the taxable profit for the years at the rates of taxation prevailing in the PRC.

CIT was levied at the reduced rate of 15% for new/high-tech subsidiaries. Certain subsidiaries of the Group met the definition of STE (Small and Thin-profit Enterprises) and entitled to a reduced corporate income tax rate of 10%.

The Company and its subsidiaries, except for STE and new/high tech subsidiaries and those incorporated in Hong Kong, are generally subject to the PRC standard corporate income tax rate of 25% (six months ended 30 June 2021 and 2022: 25%, 2021: 25%, 2020: 25%, 2019: 25%).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	179,763	188,531	255,102	127,282	26,040
Tax calculated at the applicable statutory tax rate of 25%	44,941	47,133	63,776	31,821	6,510
Adjustment for tax effect of: Preferential income tax rates applicable to certain companies comprising the Group	(11,631)	(13,288)	(16,985)	(8,886)	(9,779)
Tax effects of expenses not deductible for tax purposes	439	1,787	1,614	884	9,641
Current income tax filing difference of prior years	(1,409)	714	(1,644)	(1,644)	(181)
Tax charge	32,340	36,346	46,761	22,175	6,191

The CIT Law and its implementation rules impose a withholding tax at 10% for dividends distributed by a PRC-resident enterprise to its immediate holding company outside PRC for earnings generated beginning 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. A lower 5% withholding tax rate may be applied when the immediate holding companies are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. For the six month ended 30 June 2022, no PRC withholding tax was accrued since the Group estimated that no earnings generated by its PRC entities would be distributed to the holding companies outside PRC. As at 30 June 2022, the PRC subsidiaries of the Group have undistributed earnings of approximately RMB102,286,000, which if paid out as dividends, would be subject to tax in the hands of the recipient.

13 BASIC AND DILUTED EARNINGS PER SHARE

(i) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during each year/period. The weighted average number of ordinary shares is calculated based on the assumption that 99,800,000 shares, excluding 3,092,784 treasury shares held for employee share scheme as detailed in Note 27, and 200,000 shares issued and allotted to ZYLot Holdings, issued upon the incorporation of the Company in connection with the Reorganisation as detailed in Note 27 were deemed to have been in issue since 1 January 2019. During the six months ended 30 June 2022, the 200,000 shares issued and allotted to ZYLot Holdings was included in the weighted average number of ordinary shares by multiplication of the number of days after investment divided by total number of the days during the respective reporting periods.

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
				(Unaudited)	
Profit attributable to Owners of the Company (RMB'000)	140,329	150,959	193,475	96,947	15,123
Weighted average number of ordinary shares in issue	99,800	99,800	99,800	99,800	99,922
Basic earnings per share for profit attributable to the Owners of the Company during the year/period (expressed in RMB per share)	1.41	1.51	1.94	0.97	0.15

(ii) Diluted

Dilutive earnings per share during the Track Record Period equal basic earnings per share as no shares have dilutive impact during the Track Record Period.

14 DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Dividends declared	77,121	72,790	86,677	77,964	122,482

During the years ended 31 December 2019, 2020, 2021 and for the six months ended 30 June 2021 and 2022, certain companies now comprising the Group declared dividends of RMB77,121,000, RMB72,790,000 and RMB86,677,000, RMB77,964,000 and RMB122,482,000 respectively to their then shareholders.

No dividends have been paid or declared by the Company in respect of the Track Record Period.

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Electronic equipment and vehicles	Beauty equipment	Office furniture	Long-term leasehold improvement	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019							
Cost	40,816	18,011	120,083	7,633	197,834	46,497	430,874
Accumulated depreciation	(16,995)	(8,930)	(56,270)	(4,472)	(68,323)	-	(154,990)
Net book amount	23,821	9,081	63,813	3,161	129,511	46,497	275,884
Year ended 31 December 2019							
Opening net book amount	23,821	9,081	63,813	3,161	129,511	46,497	275,884
Additions	2,159	2,589	28,608	1,433	8,932	66,806	110,527
Transfers	59,117	-	-	-	38,153	(97,270)	-
Transferred to intangible assets (Note 18)	-	-	-	-	-	(5,426)	(5,426)
Disposals	-	(688)	(925)	-	-	(545)	(2,158)
Depreciation charge (Note 9)	(4,222)	(2,344)	(22,391)	(918)	(41,009)	-	(70,884)
Closing net book amount	80,875	8,638	69,105	3,676	135,587	10,062	307,943
At 31 December 2019							
Cost	102,092	15,536	134,291	7,063	244,919	10,062	513,963
Accumulated depreciation	(21,217)	(6,898)	(65,186)	(3,387)	(109,332)	-	(206,020)
Net book amount	80,875	8,638	69,105	3,676	135,587	10,062	307,943
Year ended 31 December 2020							
Opening net book amount	80,875	8,638	69,105	3,676	135,587	10,062	307,943
Additions	166	3,046	17,013	1,951	18,165	25,978	66,319
Acquisition of subsidiaries (Note 36)	-	-	1,443	-	5,653	850	7,946
Transfers	-	-	-	-	25,122	(25,122)	-
Transferred to intangible assets (Note 18)	-	-	-	-	-	(8,865)	(8,865)
Transferred to investment properties (Note 16)	(56,349)	-	-	-	-	-	(56,349)
Disposal of subsidiaries	-	(275)	(3,735)	(7)	(185)	-	(4,202)
Disposals	-	(201)	(3,403)	(390)	(126)	(183)	(4,303)
Depreciation charge (Note 9)	(4,957)	(2,554)	(26,842)	(1,077)	(54,754)	-	(90,184)
Impairment loss	-	-	(862)	-	-	-	(862)
Closing net book amount	19,735	8,654	52,719	4,153	129,462	2,720	217,443

	Buildings	Electronic equipment and vehicles	Beauty equipment	Office furniture	Long-term leasehold improvement	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2020							
Cost	40,816	18,011	144,181	7,633	293,548	2,720	506,909
Impairment provision	-	-	(862)	-	-	-	(862)
Accumulated depreciation	(21,081)	(9,357)	(90,600)	(3,480)	(164,086)	-	(288,604)
Net book amount	19,735	8,654	52,719	4,153	129,462	2,720	217,443
Year ended 31 December 2021							
Opening net book amount	19,735	8,654	52,719	4,153	129,462	2,720	217,443
Additions	-	4,816	35,932	2,144	18,319	69,964	131,175
Transfers	-	-	-	-	65,907	(65,907)	-
Addition through purchase	-	-	60	-	-	-	60
Transferred to intangible assets (Note 18)	-	-	-	-	-	(999)	(999)
Disposals	-	(319)	(1,813)	(311)	-	(197)	(2,640)
Depreciation charge (Note 9)	(2,037)	(2,900)	(27,824)	(1,298)	(51,476)	-	(85,535)
Closing net book amount	17,698	10,251	59,074	4,688	162,212	5,581	259,504
At 31 December 2021							
Cost	40,815	22,444	177,998	8,900	376,382	5,581	632,120
Impairment provision	-	-	(862)	-	-	-	(862)
Accumulated depreciation	(23,117)	(12,193)	(118,062)	(4,212)	(214,170)	-	(371,754)
Net book amount	17,698	10,251	59,074	4,688	162,212	5,581	259,504
Six months ended 30 June 2022							
Opening net book amount	17,698	10,251	59,074	4,688	162,212	5,581	259,504
Additions	-	1,182	15,958	85	-	35,874	53,099
Transfers	-	-	-	-	13,645	(13,645)	-
Transferred to intangible assets (Note 18)	-	-	-	-	-	(4,013)	(4,013)
Disposals	-	(94)	(301)	(30)	(303)	-	(728)
Depreciation charge (Note 9)	(1,018)	(1,604)	(14,427)	(837)	(25,243)	-	(43,129)
Closing net book amount	16,680	9,735	60,304	3,906	150,311	23,797	264,733
At 30 June 2022							
Cost	40,816	23,193	174,959	8,757	388,924	23,797	660,446
Impairment provision	-	-	(862)	-	-	-	(862)
Accumulated depreciation	(24,136)	(13,458)	(113,793)	(4,851)	(238,613)	-	(394,851)
Net book amount	16,680	9,735	60,304	3,906	150,311	23,797	264,733

During the Track Record Period, the amounts of depreciation expense charged to profit or loss are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of sales and services	65,907	83,867	80,892	39,436	40,155
Selling expenses	1,895	1,697	3,230	1,779	1,971
General and administrative expenses	2,751	3,761	1,413	730	1,003
Research and development expenses	331	859	-	-	-
	<u>70,884</u>	<u>90,184</u>	<u>85,535</u>	<u>41,945</u>	<u>43,129</u>

16 INVESTMENT PROPERTIES

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Leasehold land and buildings					
Opening net book amount	-	-	78,114	78,114	74,538
Disposals	-	-	(95)	(95)	-
Depreciation charge	-	-	(3,481)	(1,774)	(1,698)
Transferred from property, plant and equipment (Note 15)	-	56,349	-	-	-
Transferred from ROU assets (Note 17)	-	21,765	-	-	-
	<u>-</u>	<u>78,114</u>	<u>74,538</u>	<u>76,245</u>	<u>72,840</u>
Closing net book amount:					
Cost	-	78,114	78,019	78,019	78,019
Accumulated depreciation	-	-	(3,481)	(1,774)	(5,179)
Net book value	<u>-</u>	<u>78,114</u>	<u>74,538</u>	<u>76,245</u>	<u>72,840</u>
Fair value at the end of year/period	<u>-</u>	<u>92,030</u>	<u>92,280</u>	<u>92,190</u>	<u>92,670</u>

The property transfers at the carrying amount into investment properties. No gain or loss was recorded.

As at 31 December 2020, 2021 and 30 June 2022, the Group assessed the fair values of investment properties with reference to valuation reports issued by an independent valuer. The valuation method is the income approach, which takes into account the rental income of such portion of the property derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the market value at an appropriate capitalisation rate.

During the year ended 31 December 2021, the six months ended 30 June 2021 and 2022, rental income of the Group's investment properties of recognised as "other income" (Note 7) amounted to RMB5,611,000, RMB2,814,000 and RMB2,954,000 respectively. And depreciation of the Group's investment properties recognised as "other expense" (Note 7) amounted to RMB3,481,000, RMB1,774,000 and RMB1,698,000 respectively.

The investment properties are leased to tenants under operating leases with rentals payable quarterly. Lease payments for the contract include CPI increases, but there are no other variable lease payments that depend on an index or rate.

17 LEASES

The consolidated balance sheets show the following amounts relating to leases:

(a) Right-of-use assets

	<u>Properties</u>	<u>Land use rights</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2019			
Opening net book amount	591,783	22,725	614,508
Additions	80,032	–	80,032
Depreciation (Note 9)	(142,533)	(480)	(143,013)
Closing net book amount	<u>529,282</u>	<u>22,245</u>	<u>551,527</u>
At 31 December 2019			
Cost	671,815	24,048	695,863
Accumulated depreciation	(142,533)	(1,803)	(144,336)
Net book amount	<u>529,282</u>	<u>22,245</u>	<u>551,527</u>
Year ended 31 December 2020			
Opening net book amount	529,282	22,245	551,527
Additions	95,347	–	95,347
Transferred to investment properties (Note 16)	–	(21,765)	(21,765)
Depreciation (Note 9)	(158,162)	(480)	(158,642)
Closing net book amount	<u>466,467</u>	<u>–</u>	<u>466,467</u>
At 31 December 2020			
Cost	763,228	–	763,228
Accumulated depreciation	(296,761)	–	(296,761)
Net book amount	<u>466,467</u>	<u>–</u>	<u>466,467</u>
Year ended 31 December 2021			
Opening net book amount	466,467	–	466,467
Additions	159,442	–	159,442
Depreciation (Note 9)	(174,114)	–	(174,114)
Closing net book amount	<u>451,795</u>	<u>–</u>	<u>451,795</u>
At 31 December 2021			
Cost	890,358	–	890,358
Accumulated depreciation	(438,563)	–	(438,563)
Net book amount	<u>451,795</u>	<u>–</u>	<u>451,795</u>
Six months ended 30 June 2022			
Opening net book amount	451,795	–	451,795
Additions	104,272	–	104,272
Depreciation (Note 9)	(91,922)	–	(91,922)
Closing net book amount	<u>464,145</u>	<u>–</u>	<u>464,145</u>
At 30 June 2022			
Cost	942,643	–	942,643
Accumulated depreciation	(478,498)	–	(478,498)
Net book amount	<u>464,145</u>	<u>–</u>	<u>464,145</u>

The land use rights represent the Group's leasehold land that the Group has made prepayment for the lease of the land located in PRC.

(b) Lease liabilities

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities				
Current	119,780	141,377	163,181	155,427
Non-current	430,100	367,943	352,279	358,328
	<u>549,880</u>	<u>509,320</u>	<u>515,460</u>	<u>513,755</u>

The consolidated statements of comprehensive income and the consolidated statements of cash flows contain the following amounts relating to leases:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(i) Profit or loss:					
Depreciation of right-of-use assets, charged to cost of sales and services and general and administrative expenses	143,013	158,642	174,114	82,675	91,922
Interest expenses relating to lease liabilities, charged to finance costs	26,824	24,825	24,199	12,308	12,045
Expenses relating to variable lease payments	2,140	2,863	4,562	2,921	3,914
Expenses relating to short-term leases	6,921	4,468	5,335	2,137	1,756
	<u>178,898</u>	<u>190,798</u>	<u>208,210</u>	<u>100,041</u>	<u>109,637</u>
(ii) Cash flow:					
The cash outflow for leases as financing activities	147,297	160,732	177,501	91,633	118,022
The cash outflow for leases as operating activities	9,061	7,331	9,897	5,058	5,670
	<u>156,358</u>	<u>168,063</u>	<u>187,398</u>	<u>96,691</u>	<u>123,692</u>

(iii) *The Group's leasing activities and how these are accounted for*

The Group leases various offices and stores. Rental contracts are typically made for fixed periods of six months to fifteen years and have no extension options granted to the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(iv) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores with variable payment arrangements, up to 95% of lease payments are on the basis of variable payment terms with percentages ranging from 10% to 16% of sales. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

If revenue had increased/decreased by 5% with all other variables held constant, variable lease payments for the year, and for the six months ended 30 June 2021 and 2022 would have been approximately RMB2,283,000, RMB2,455,000 and RMB2,905,000, RMB1,451,000 and RMB1,506,000 respectively higher/lower mainly as a result of lease expenses of cost of sales and services and cash equivalents.

(v) Extension and termination options

Extension and termination options are not included in leases across the Group. The majority of extension and termination options are exercisable by mutual agreements between the Group and the respective lessor.

18 INTANGIBLE ASSETS

	Software	Trademarks	Customer relationships	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2019					
Cost	14,550	23,208	63,069	74	100,901
Accumulated amortisation and impairment	(2,670)	(87)	(15,452)	(21)	(18,230)
Net book amount	11,880	23,121	47,617	53	82,671
Year ended 31 December 2019					
Opening net book amount	11,880	23,121	47,617	53	82,671
Transferred from assets under construction (Note 15)	5,426	-	-	-	5,426
Amortisation charge (Note 9)	(1,994)	(21)	(7,738)	(7)	(9,760)
Closing net book amount	15,312	23,100	39,879	46	78,337
At 31 December 2019					
Cost	19,976	23,208	63,069	74	106,327
Accumulated amortisation and impairment	(4,664)	(108)	(23,190)	(28)	(27,990)
Net book amount	15,312	23,100	39,879	46	78,337

	Software	Trademarks	Customer relationships	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2020					
Opening net book amount	15,312	23,100	39,879	46	78,337
Acquisition of subsidiaries (Note 36)	-	-	16,328	-	16,328
Transferred from assets under construction (Note 15)	8,865	-	-	-	8,865
Disposals	(2,763)	~	-	-	(2,763)
Amortisation charge (Note 9)	(2,111)	(21)	(8,283)	(8)	(10,423)
Closing net book amount	19,303	23,079	47,924	38	90,344
At 31 December 2020					
Cost	22,394	23,208	79,397	74	125,073
Accumulated amortisation and impairment	(3,091)	(129)	(31,473)	(36)	(34,729)
Net book amount	19,303	23,079	47,924	38	90,344
Year ended 31 December 2021					
Opening net book amount	19,303	23,079	47,924	38	90,344
Acquisition of subsidiaries (Note 36)	-	-	11,000	-	11,000
Transferred from assets under construction (Note 15)	999	-	-	-	999
Impairment	-	(34)	-	-	(34)
Amortisation charge (Note 9)	(2,299)	(21)	(9,731)	(7)	(12,058)
Closing net book amount	18,003	23,024	49,193	31	90,251
At 31 December 2021					
Cost	23,393	23,208	90,397	74	137,072
Accumulated amortisation and impairment	(5,390)	(184)	(41,204)	(43)	(46,821)
Net book amount	18,003	23,024	49,193	31	90,251

	Software	Trademarks	Customer relationships	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2022					
Opening net book amount	18,003	23,024	49,193	31	90,251
Transferred from assets under construction (Note 15)	4,013	-	-	-	4,013
Disposal	-	-	(596)	-	(596)
Amortisation charge (Note 9)	(1,348)	(10)	(6,557)	(4)	(7,919)
Closing net book amount	<u>20,668</u>	<u>23,014</u>	<u>42,040</u>	<u>27</u>	<u>85,749</u>
At 30 June 2022					
Cost	27,406	23,208	88,714	74	139,402
Accumulated amortisation and impairment	(6,738)	(194)	(46,674)	(47)	(53,653)
Net book amount	<u>20,668</u>	<u>23,014</u>	<u>42,040</u>	<u>27</u>	<u>85,749</u>

During the Track Record Period, the amounts of amortisation expenses charged to profit or loss are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Selling expenses	7,035	6,747	7,858	4,482	5,496
General and administrative expenses	2,022	2,140	2,327	1,139	1,356
Research and development expenses	703	1,536	1,873	905	1,067
	<u>9,760</u>	<u>10,423</u>	<u>12,058</u>	<u>6,526</u>	<u>7,919</u>

(i) The Group designs and develops software systems, such as ERP, BPM. The research and development expenses incurred in 2019, 2020, 2021 and for the six months ended 30 June 2021 and 2022 were approximately RMB9,142,000, RMB12,670,000, RMB18,029,000, RMB7,751,000 and RMB14,992,000 respectively, which have been included in the research and development expenses in the statement of profit or loss.

(ii) During the track record period, management conducted an impairment review on the intangible assets of customers relationships and trademarks with infinite useful life together with goodwill. The key assumptions used in the impairment review were disclosed in Note 21.

19 OTHER NON-CURRENT ASSETS

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for constructions	2,637	3,680	4,872	2,329
Prepayment for procurement of equipment	1,250	1,394	2,231	2,988
	<u>3,887</u>	<u>5,074</u>	<u>7,103</u>	<u>5,317</u>

20 SHARED-BASED PAYMENTS

(1) Share Award Scheme

The Group adopted a number of employee restricted share plans to provide long-term incentives for its employees and directors of the Group to deliver long-term shareholder returns. Under the plans, participants are granted restricted share which only vest if certain conditions are met.

On 16 May 2017, Shanghai Youyi Commercial Management Partnership (Limited Partnership) ("Shanghai Youyi") was established serving as the employee incentive platform, in which Mr. Li was the controlling shareholder and general partner.

In 2017, Mr Li transferred his 0.51% share of Shanghai Beauty Farm to Shanghai Youyi. Shanghai Youyi further subscribed aggregately 2.73% shares of Shanghai Beauty Farm during 2017 and 2018. 0.97% and 1.11% of Shanghai Beauty Farm's shares that were held by Shanghai Youyi were granted to Grantees on 26 December 2017 and 19 December 2018 respectively at subscription price of RMB4,656,000 and RMB13,875,000. In 2019, Shanghai Beauty Farm bought back the remaining ungranted 1.16% shares held by Shanghai Youyi with the consideration of RMB12,421,000 (Note 28). In 2021, Shanghai Beauty Farm further bought back ungranted shares held by Shanghai Youyi with the consideration of RMB232,000. Such shares were treated as treasury stock and were subsequently transferred to Shanghai Youyi on 31 August 2021 at subscription price of RMB18,557,000, who then granted the shares to the employees of Shanghai Beauty Farm. Shanghai Beauty Farm does not have any obligation to repurchase and pay back the subscription price to employee upon forfeiture.

During the reorganisation in 2022 as mentioned in Note 1.2, the above restricted share plans was replaced by the restricted share plans under Crest Sail Limited, the vesting condition does not change, and no additional benefit to the employee upon modification and thus does not have any accounting impact.

The Group adopted the following restricted share plans to the Grantees, as rewards for their services, full time devotion and professional expertise to the Group.

	Percentage of share granted	Subscription price	Fair value of the share granted as at grant date
	(%)	(RMB'000)	(RMB'000)
2017 Restricted Share Plan	0.97	4,656	7,760
2018 Restricted Share Plan	1.11	13,875	17,760
2021 Restricted Share Plan	1.16	18,557	29,125

Expenses for the share-based compensation have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
General and administrative expenses	1,592	1,592	4,234	796	4,759

(Unaudited)

(2) Key assumptions

The following table sets forth key assumptions on which management has based its cash flow projections to undertake the fair value as at grant date.

	Annual revenue growth rate	EBIT/Revenue
	(%)	(%)
2017 Restricted Share Plan	10.09	4.92
2018 Restricted Share Plan	8.87	11.59
2021 Restricted Share Plan	10.02	8.51

(3) Share awards scheme of Group's subsidiaries

Equity interest of the Group's certain subsidiaries are awarded to certain registered practitioners ("Practitioners"), including store directors, regional managers, senior operation managers, in respect of their future services for the Group.

Several commercial management partnerships ("Limited Partnerships") were established by the Group in 2020 as employee incentive platforms.

Certain percentage of the equity interest of these Limited Partnerships were granted to Practitioners in 2020, 2021 and 2022 respectively at subscription price of RMB16,251,000 and RMB7,256,000 and RMB4,101,000 as a total respectively. Shanghai Beauty Farm does not have any obligation to repurchase and pay back the subscription price to employee upon forfeiture.

Expenses for the share-based compensation have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
General and administrative expenses	–	5,396	2,056	2,056	60

(Unaudited)

(4) Key assumptions

The following table sets forth key assumptions on which management has based its cash flow projections to undertake the fair value as at grant date.

	Annual revenue growth rate	EBIT/Revenue
	(%)	(%)
2020 Restricted Share Plan	4.73~7.53	5.29~15.58
2021 Restricted Share Plan	4.88~8.43	4.43~14.29
2022 Restricted Share Plan	6.93	8.65

(5) On 11 March 2022, ZYLot Holdings Limited completed a RMB3,976,000 investment in the Company for 0.2% of the Company's issued share capital. The difference amounted to RMB1,600,000 between the equity purchase price and the fair value was charged to share-based payment expenses in consolidated statements of profit or loss during six months ended 30 June 2022.

21 GOODWILL

	Goodwill
	<i>RMB'000</i>
Year ended 31 December 2019	
Opening net book amount	152,268
Acquisition of business	—
Closing net book amount	152,268
At 31 December 2019	
Cost	152,268
Accumulated impairment	—
Net book amount	152,268
Year ended 31 December 2020	
Opening net book amount	152,268
Acquisition of business (<i>Note 36</i>)	23,789
Closing net book amount	176,057
At 31 December 2020	
Cost	176,057
Accumulated impairment	—
Net book amount	176,057
Year ended 31 December 2021	
Opening net book amount	176,057
Acquisition of business (<i>Note 36</i>)	18,216
Closing net book amount	194,273
At 31 December 2021	
Cost	194,273
Accumulated impairment	—
Net book amount	194,273
Six months ended 30 June 2022	
Opening net book amount	194,273
Disposal (i)	(2,736)
Closing net book amount	191,537
At 30 June 2022	
Cost	191,537
Accumulated impairment	—
Net book amount	191,537

- (i) In March 2022, the Group entered into a store transfer agreement with Beijing Jiyueheyan Beauty Co., Ltd. (“Beijing Jiyueheyan”), pursuant to which the Group transferred one of the Palaispa direct store (the “Store”) in its subsidiary Beijing Palaispa Business Management Co., Ltd. (“Beijing Palaispa”) to Beijing Jiyueheyan at the total consideration of RMB2,125,000.

The Group derecognised related property, plant and equipments, intangible assets and goodwill attributable to the store amounting to RMB123,000, RMB596,000 and RMB2,736,000 respectively of the Store from its consolidated statements of financial position upon losing control. The consideration was determined based on arm’s length negotiation between the parties at the time of the disposal.

(a) Impairment tests of goodwill, customer relationships and trademark

Goodwill, customer relationships and trademark is allocated to CGUs by brand, Palaispa, and by cities, including Shanghai, Chongqing, and other cities located in PRC.

The management has involved an independent qualified valuer to perform impairment test applying “value-in-use” method as at 31 December 2019, 2020, 2021 and 30 June 2022 by using the discounted cash flow model. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews. The forecast period is 5 years.

The recoverable amount of the CGUs based on the estimated value-in-use calculations was higher than the carrying amount at 31 December 2019, 2020, 2021 and 30 June 2022. Accordingly, no provision for impairment loss for goodwill, customer relationships and trademark is considered necessary.

Asset-unit-level summary of the goodwill allocation is presented below.

2019	Palaispa	Shanghai	Chongqing	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost	74,800	38,939	31,031	7,498	152,268
Impairment	-	-	-	-	-
	<u>74,800</u>	<u>38,939</u>	<u>31,031</u>	<u>7,498</u>	<u>152,268</u>
2020	Palaispa	Shanghai	Chongqing	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost	74,800	38,939	31,031	31,287	176,057
Impairment	-	-	-	-	-
	<u>74,800</u>	<u>38,939</u>	<u>31,031</u>	<u>31,287</u>	<u>176,057</u>
2021	Palaispa	Shanghai	Chongqing	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost	74,800	38,939	31,031	49,503	194,273
Impairment	-	-	-	-	-
	<u>74,800</u>	<u>38,939</u>	<u>31,031</u>	<u>49,503</u>	<u>194,273</u>

30 June 2022	Palaispa	Shanghai	Chongqing	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost	72,064	38,939	31,031	49,503	191,537
Impairment	-	-	-	-	-
	72,064	38,939	31,031	49,503	191,537

(b) Key assumptions

The following table sets forth key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill and intangible assets of customer relationships and trademark with infinite useful life as at 31 December 2019, 2020, 2021 and 30 June 2022.

	As at 31 December			As at 30 June
	2019	2020	2021	2022
Palaispa				
Revenue next 5 year (% annual growth rate)	8.43	11.91	7.31	6.51
EBIT/Revenue (%)	5.61	7.69	8.22	8.49
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	12.45	12.45	13.50	14.60
Shanghai				
Revenue next 5 year (% annual growth rate)	8.59	8.85	8.19	10.65
EBIT/Revenue (%)	3.87	3.83	3.91	0.68
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	14.70	14.65	13.70	12.06
Chongqing				
Revenue next 5 year (% annual growth rate)	10.13	10.36	7.12	5.60
EBIT/Revenue (%)	11.23	11.35	11.57	11.77
Long term growth rate(%)	2	2	2	2
Pre-tax discount rate (%) (<i>note</i>)	14.60	14.60	14.60	15.50
Other cities				
Revenue next 5 year (% annual growth rate)	8.7~18.94	9.83~17.52	6.49~12.19	6.00~10.35
EBIT/Revenue (%)	2.22~16.34	4.30~17.74	4.42~18.14	0.50~18.25
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	12.77~14.15	12.80~14.76	13.65~17.85	12.90~17.85

Note: The pre-tax discount rate remained stable at 14.60% for the years ended 31 December 2019, 2020 and 2021 as there was no significant change on the main business and the risk profile of Chongqing CGU.

The long term growth rates were estimated based on the overall long-term business development plan of the Group and the inflation rate of China as a whole during the Track Record Period.

Management has determined the values assigned to each of the above key assumptions as follows:

<u>Assumption</u>	<u>Approach used to determine values</u>
Sales volume	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Sales price	Average annual growth rate over the five-year forecast period; based on current industry trends and including long term inflation forecasts for each territory.
EBIT/Revenue	Based on past performance and management's expectations for the future.
Long term growth rate	The basis used to determine the value assigned to the long-term growth rate is the forecast price indices during the budget year from where the main services are located.

Based on the result of the goodwill impairment testing, the estimated recoverable amount of the CGU far exceeded its carrying amount and the headroom was as follows:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>30 June</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Palaispa	160,640	160,639	107,761	135,997
Shanghai	173,489	185,163	289,234	157,681
Chongqing	113,922	113,922	110,854	117,734
	<u>448,051</u>	<u>459,724</u>	<u>507,849</u>	<u>411,412</u>

The management performed the sensitivity analysis based on the abovementioned key assumptions have been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased to as below:

Palaispa:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>30 June</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expected revenue next 5 year decreased by 3%	96,640	96,639	31,761	53,997
Expected EBIT/Revenue decreased by 3%	117,640	117,639	75,761	107,997
Pre-tax discount rate increased by 1%	149,640	149,639	93,761	115,997
Expected long term growth rate decreased by 1%	<u>142,640</u>	<u>142,639</u>	<u>93,761</u>	<u>115,997</u>

Shanghai:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Expected revenue next 5 year decreased by 3%	11,749	121,163	74,234	21,681
Expected EBIT/Revenue decreased by 3%	109,489	45,163	204,234	95,681
Pre-tax discount rate increased by 1%	161,489	171,163	265,234	131,681
Expected long term growth rate decreased by 1%	164,489	175,163	257,234	113,681

Chongqing:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Expected revenue next 5 year decreased by 3%	49,922	45,922	63,854	74,734
Expected EBIT/Revenue decreased by 3%	102,922	100,922	79,854	107,734
Pre-tax discount rate increased by 1%	104,922	104,922	99,854	111,734
Expected long term growth rate decreased by 1%	106,922	106,922	103,854	114,734

The management believes that any reasonable possible change in any of the key assumptions would not cause the carrying amounts of the CGU to exceed its recoverable amount.

The management of the Company concluded that no provision for impairment on the goodwill has to be recognised as at 31 December 2019, 2020, 2021 and 30 June 2022.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Wealth management products	358,898	658,387	926,338	709,736

During the Track Record Period, the Group purchases low-risk investments for cash management purposes, which mainly included wealth management products from licensed commercial banks and state-owned trust companies. The products were standardized and short-term wealth management products with maturity day within one year with an estimated annualized return rate ranging from 2.30% to 4.60%. Wealth management products are all held for trading and classified as financial assets at FVPL. For information about the methods and assumptions used in determining fair value see Note 3.3.

23 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Financial assets at amortised cost				
Cash and cash equivalents (<i>Note 26</i>)	104,819	143,538	157,284	149,696
Restricted cash (<i>Note 26</i>)	–	–	10,254	10,270
Trade receivables and notes receivables (<i>Note 25</i>)	30,316	36,699	31,316	34,380
Deposits, other receivables and amount due from related parties (<i>Note 25</i>)	70,615	77,659	83,869	168,040
Financial assets at FVOCI	182	179	74	–
Financial assets at FVPL (<i>Note 22</i>)	358,898	658,387	926,338	709,736
	<u>564,830</u>	<u>916,462</u>	<u>1,209,135</u>	<u>1,072,122</u>
	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Financial liabilities at amortised cost				
Bank borrowings (<i>Note 29</i>)	19,110	6,370	–	–
Lease liabilities (<i>Note 17</i>)	549,880	509,320	515,460	513,755
Trade payables (<i>Note 31</i>)	30,022	17,820	15,436	29,304
Other payables and accruals excluding employee benefits payables and tax payables (<i>Note 31</i>)	88,250	67,878	90,409	82,655
	<u>687,262</u>	<u>601,388</u>	<u>621,305</u>	<u>625,714</u>

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

24 INVENTORIES

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Body and skin care products and medical consumables	81,723	70,957	103,570	125,817
Less: provision for inventory	(4,565)	(5,608)	(6,320)	(8,389)
	<u>77,158</u>	<u>65,349</u>	<u>97,250</u>	<u>117,428</u>

The provision for inventory as at 31 December 2019, 2020, 2021 and 30 June 2022 reconciles to the opening balance of the provision as follows:

	Years ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
As at the beginning of year/period	4,487	4,565	5,608	5,608	6,320
Increase in loss allowance recognised in profit or loss during the year/period	123	1,075	712	(839)	2,069
Transfer to cost of sales and services upon sales of inventories	(45)	(32)	-	-	-
As at the end of year/period	<u>4,565</u>	<u>5,608</u>	<u>6,320</u>	<u>4,769</u>	<u>8,389</u>

The costs of individual items of inventory are determined using weighted average costs at the end of each month. See Note 2.13 for the Group's accounting policies for inventories.

During the years ended 31 December 2019, 2020, 2021, and the six months ended 30 June 2021 and 2022, the cost of inventories recognised as expense and included in 'cost of sales and services' and 'selling expenses' amounted to RMB249,009,000, RMB287,987,000 and RMB320,507,000, RMB154,763,000 and RMB128,803,000 respectively (Note 9).

25 NOTES RECEIVABLES, TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Notes receivables				
Bank acceptance bill	–	–	–	1,339
Trade receivables ((i) and (ii))				
Trade receivables	32,655	38,959	33,809	35,152
Less: provision for impairment	(2,339)	(2,260)	(2,493)	(2,111)
Total trade receivables	30,316	36,699	31,316	33,041
Total trade receivables and notes receivables	<u>30,316</u>	<u>36,699</u>	<u>31,316</u>	<u>34,380</u>
Included in current assets				
Prepayments, deposits and other receivables				
Amount due from related parties (Note 34(c))	6,950	–	10,849	86,248
Deposits – current portion (iii)	11,398	16,867	12,394	13,738
Other receivables	11,529	14,578	5,670	13,209
Less: provision for impairment	(1,589)	(609)	(323)	(516)
Prepayments for procurement of inventories and operating expenses (vi)	44,324	29,080	36,494	50,509
Other current assets (iv)	12,088	22,848	18,162	12,555
Prepaid listing expense	–	–	3,792	4,311
Total prepayments, deposits and other receivables – current portion	<u>84,700</u>	<u>82,764</u>	<u>87,038</u>	<u>180,054</u>
Included in non-current assets				
Deposits and other receivables				
Deposits – non-current portion (iii)	43,492	46,865	55,360	55,401
Less: provision for impairment	(1,165)	(42)	(81)	(40)
Total	<u>42,327</u>	<u>46,823</u>	<u>55,279</u>	<u>55,361</u>

(i) Aging analysis of trade receivables

The majority of the Group's sales are settled through credit cards or e-pay applications against payment. At 31 December, the aging analysis of the trade receivables from contracts with customers receivables as at the balance sheet dates based on invoice date was as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Up to 1 year	30,393	34,870	31,888	32,433
Between 1 and 2 years	1,245	3,242	1,304	1,921
Between 2 and 3 years	660	506	380	457
Over 3 years	357	341	237	341
	<u>32,655</u>	<u>38,959</u>	<u>33,809</u>	<u>35,152</u>

(ii) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(iii) Deposits

The current portion of deposits mainly represented the deposits for guarantee of inventories and short-term lease of stores and buildings, and the non-current portion of deposits represented long-term lease of stores and buildings.

(iv) Other current assets

Other current assets include deductible input VAT, and prepayment of PRC corporate income tax as at 31 December 2019, 2020, 2021 and 30 June 2022.

(v) Impairment and risk exposure

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

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
As at 1 January	(4,520)	(2,339)	(2,260)	(2,493)
(Provision for)/Reversal of receivables impairment	(545)	54	(732)	382
Receivables written off during the year as uncollectible	2,726	25	499	–
As at 31 December/30 June	<u>(2,339)</u>	<u>(2,260)</u>	<u>(2,493)</u>	<u>(2,111)</u>

The movements in the loss allowance of impairment of deposits including current and non-current portion and other receivables are as below:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
As at 1 January	(15,662)	(2,754)	(651)	(404)
Reversal of/(Provision for) receivables impairment	5,116	1,961	(574)	(152)
Deposits including current and non-current portion and other receivables written off during the year as uncollectible	7,792	142	821	–
As at 31 December/30 June	(2,754)	(651)	(404)	(556)

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

As at 31 December 2019

	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Over 3 years	Total
Excepted credit loss rate	6%	10%	20%	68%	7%
Gross carrying amount	30,393	1,245	660	357	32,655
Expected credit losses	1,839	125	132	243	2,339

As at 31 December 2020

	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Over 3 years	Total
Excepted credit loss rate	5%	10%	20%	64%	6%
Gross carrying amount	34,870	3,242	506	341	38,959
Expected credit losses	1,616	324	101	219	2,260

As at 31 December 2021

	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Over 3 years	Total
Excepted credit loss rate	7%	10%	20%	66%	7%
Gross carrying amount	31,888	1,304	380	237	33,809
Expected credit losses	2,130	130	76	157	2,493

As at 30 June 2022

	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Over 3 years	Total
Excepted credit loss rate	5%	10%	20%	66%	6%
Gross carrying amount	32,433	1,921	457	341	35,152
Expected credit losses	1,603	192	91	225	2,111

The expected credit loss rate remain stable during the Track Record Period for the two time band 'Between 1 and 2 years' and 'Between 2 and 3 years' since there is no significant historical credit loss for the two time bands and no significant change in the credit profiles of the customers. There are no foreseeable significant matter that could have significant impact on the credit rating of the customers.

On the basis as described in Note 3.1(b)(iii), the loss allowance for deposits and other receivables as at 31 December 2019, 2020, 2021 and 30 June 2022 are determined as follows:

	As at 31 December						As at 30 June					
	2019		2020		2021		2022					
	Expected loss rate	Gross Carrying amount	Loss Allowance provision	Expected loss rate	Gross Carrying amount	Loss Allowance provision	Expected loss rate	Gross Carrying amount	Loss Allowance provision	Expected loss rate	Gross Carrying amount	Loss Allowance provision
		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
Included in current assets												
Deposits and other receivables												
Amount due from a related party	1%	6,950	70	-	-	-	0.5%	10,849	54	0.1%	86,248	86
Deposits	3%	11,398	342	1%	16,867	151	1%	12,394	148	1%	13,738	110
Other receivables	10%	11,529	1,177	3%	14,578	458	2%	5,670	121	2%	13,209	320
Included in non-current assets												
Deposits and other receivables	3%	43,492	1,165	0.1%	46,865	42	0.1%	55,360	81	0.1%	55,401	40
		<u>73,369</u>	<u>2,754</u>		<u>78,310</u>	<u>651</u>		<u>84,273</u>	<u>404</u>		<u>168,596</u>	<u>556</u>

Deposits and other receivables are considered to have a low risk of default and each of the counterparties has a strong capacity to meet its contractual cash flow obligations in the near term, hence the Group considers them to have low credit risk, and thus the impairment provision recognised is limited to 12-month expected losses. For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(vi) Prepayments and other receivables

The Group makes prepayments for property management fees and utility fees of stores and buildings, certain purchases of inventories, marketing fees, etc.

The carrying amounts of the Group's notes receivables, trade receivables, prepayments, deposits and other receivables are primarily denominated in RMB.

The Company

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Included in current assets				
Prepayments, deposits and other receivables				
Amount due from related parties (Note 34(c))	-	-	-	72,294
Other current assets				
- Prepaid listing expense	-	-	-	4,311
Total	-	-	-	76,605

26 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Cash and bank balances				
- Cash on hand	-	-	42	186
- Cash at bank	104,819	143,538	167,496	159,780
	104,819	143,538	167,538	159,966
Less: restricted cash (note a)	-	-	(10,254)	(10,270)
Cash and cash equivalents	104,819	143,538	157,284	149,696

- (a) Restricted cash are bank deposits placed by the Group with a bank as a security for prepaid cards issued to customers and are not available for other use by the Group.

(b) The cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	100,214	137,454	151,210	139,220
USD	4,453	5,701	5,049	5,241
EUR	148	150	884	880
HKD	–	–	–	4,213
Others	4	233	141	142
	<u>104,819</u>	<u>143,538</u>	<u>157,284</u>	<u>149,696</u>

The Company

	As at
	30 June 2022
	<i>RMB'000</i>
Cash at bank	<u>4,213</u>
Cash and cash equivalents	<u>4,213</u>

The carrying amount of the company's cash and cash equivalents are denominated in the following currency:

	As at
	30 June 2022
	<i>RMB'000</i>
HKD	<u>4,213</u>

27 SHARE CAPITAL

As of the date of incorporation of the Company, the Company was authorized to issue 5,000,000,000 shares of USD0.00001 each. Upon its incorporation, 62,260,000 shares were issued to the shareholders.

Ordinary shares issued and not fully paid:

	Number of shares	Share capital – USD	Share capital – RMB
At 1 January 2019, 31 December 2019, 2020, 2021	–	–	–
At 10 February 2022 (date of incorporation) (a)	62,260,000	623	3,958
Issuance of ordinary shares on 11 March (b)	700,000	7	44
Issuance of ordinary shares on 29 March (c)	3,092,784	31	197
Issuance of ordinary shares on 21 April (d)	37,040,000	370	2,374
	<u>103,092,784</u>	<u>1,031</u>	<u>6,573</u>
At 30 June 2022	<u>103,092,784</u>	<u>1,031</u>	<u>6,573</u>

- (a) 62,260,000 shares of USD0.00001 were allotted and issued to LIY Holdings Limited, LIY Management Holdings Limited, LIFY Management Holdings Limited, MeiYao Holdings Limited, Individual Group Holdings Limited, You Yi Holdings Limited on 10 February 2022, the date of incorporation.
- (b) 500,000 shares of USD0.00001 were allotted and issued to LIY Holdings Limited, LIY Management Holdings Limited, LIFY Management Holdings Limited, MeiYao Holdings Limited, Individual Group Holdings Limited and Crestsail Limited on 11 March 2022. 200,000 share of USD0.00001 was allotted and issued to ZYLot Holdings Limited by cash injection of RMB3,976,000 to the Company.
- (c) 3,092,784 shares of USD0.00001 were allotted and issued to Thriving Team Limited on 29 March 2022, which is wholly-owned by the Thriving Team Trust. Such Shares are to be held in trust to facilitate the transfer of Shares to the grantees upon vesting of the relevant Share Options and Share Awards. The Shares of the Company held in Thriving Team Limited were accounted as 'Reserve-Treasury shares held in trust'.
- (d) 37,040,000 shares of USD0.00001 were allotted and issued to Beijing Xinyu Meiye Holdings Limited on 21 April 2022. The Company regarded the issued shares as ordinary shares since the preferred rights stipulated in the shareholder agreement among Beijing Xinyu Meiye Holdings Limited and other shareholders mirrored from agreement among shareholders of Shanghai Beauty Farm did not alter. Such shares were treated the same way as ordinary share as they carry the same voting and dividend right and the Group does not have any obligation for redemption.

28 OTHER RESERVES

	Other comprehensive income	Capital reserve	Other reserve- combined capital	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	(1,007)	587	4,707	4,287
Other comprehensive income	(1)	-	-	(1)
Acquisition of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme (Note 20)	-	(12,421)	-	(12,421)
Capital injection	-	3,486	-	3,486
Share-based payment expenses (Note 20)	-	1,592	-	1,592
Transactions with non-controlling interests (i)	-	(107)	-	(107)
At 31 December 2019	(1,008)	(6,863)	4,707	(3,164)
At 1 January 2020	(1,008)	(6,863)	4,707	(3,164)
Other comprehensive income	(3)	-	-	(3)
Share-based payment expenses (Note 20)	-	6,282	-	6,282
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	200	-	-	200
Transactions with non-controlling interests (i)	-	4,137	-	4,137
At 31 December 2020	(811)	3,556	4,707	7,452
At 1 January 2021	(811)	3,556	4,707	7,452
Disposal of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme	-	18,325	-	18,325
Other comprehensive income (Note 20)	(105)	-	-	(105)
Share-based payment expenses (Note 20)	-	5,802	-	5,802
Share reform	-	(35,234)	95,293	60,059
Transactions with non-controlling interests (i)	-	(23,389)	-	(23,389)
Other movement	-	(2,705)	-	(2,705)
At 31 December 2021	(916)	(33,645)	100,000	65,439

	Other comprehensive income	Capital reserve	Other reserve- combined capital	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2022	(916)	(33,645)	100,000	65,439
Other comprehensive income	(74)	–	–	(74)
Capital injection	–	3,971	–	3,971
Share-based payment expenses (<i>Note 20</i>)	–	6,416	–	6,416
Transactions with non-controlling interests (<i>i</i>)	–	1,408	–	1,408
Reorganisation	–	15,635	(100,000)	(84,365)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2022	(990)	(6,215)	–	(7,205)

(i) Transactions with non-controlling interests

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(<i>a</i>)	(<i>b</i>)	(<i>c</i>)
Consideration (paid to)/received from the non-controlling shareholders	(60)	7,996	(21,641)	1,531
Carrying amount of non-controlling interests	<u>(47)</u>	<u>(3,859)</u>	<u>(1,748)</u>	<u>(123)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u>(107)</u>	<u>4,137</u>	<u>(23,389)</u>	<u>1,408</u>

(a) In 2020, the transaction with non-controlling interests comprised:

	2020
	<i>RMB'000</i>
Issuance of equity interests of Shanghai Ranyou Business Management Co., Ltd. to the non-controlling shareholders (<i>Note (i)</i>)	14,126
Purchase of 44% of equity interest of Chengdu Jiahao Beauty Service Co., Ltd. from non-controlling shareholders (<i>Note (ii)</i>)	(4,906)
Purchase of 25% of equity interest of Wuhan Xuemanting Beauty Cosmetics Co., Ltd. (<i>Note (iii)</i>)	<u>(2,016)</u>
Others	<u>(3,067)</u>
	<u>4,137</u>

- (i) In December 2020, Shanghai Ranyou Business Management Co., Ltd., one subsidiary of Shanghai Beauty Farm, transferred the equity interests of several subsidiaries to registered practitioners under share awards given by the Group's subsidiaries, with the considerations amount to RMB16,251,000. The change of reserves of RMB14,126,000 represented the difference between the amount of consideration and the relevant disposed identified net liabilities. The effect on the equity attributable to the owners of Shanghai Beauty Farm during the year ended 31 December 2020 is summarized as follows:

	<u>2020</u>
	<i>RMB'000</i>
Consideration received from the non-controlling shareholder	16,251
Carrying amount of non-controlling interests	<u>(2,125)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>14,126</u></u>

- (ii) In September 2020, Shanghai Beauty Farm purchased additional 44% of equity interests of Chengdu Jiahao Beauty Service Co., Ltd. from non-controlling shareholders at a consideration of RMB1,690,000. After this transaction, Shanghai Beauty Farm owned 100% equity interest of Chengdu Jiahao Beauty Service Co., Ltd.. The change of reserves amounted to RMB4,906,000 represented the difference between the amount of consideration and the relevant acquired identified net liabilities from non-controlling shareholder. The effect on the equity attributable to the owners of Shanghai Beauty Farm during the year ended 31 December 2020 is summarized as follows:

	<u>2020</u>
	<i>RMB'000</i>
Consideration paid to the non-controlling shareholder	(1,690)
Carrying amount of non-controlling interests	<u>(3,216)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>(4,906)</u></u>

- (iii) In September 2020, Shanghai Beauty Farm purchased additional 25% of equity interests of Wuhan Xuemanting Beauty Cosmetics Co., Ltd. from non-controlling shareholders at a consideration of RMB1,140,000. After this transaction, Shanghai Beauty Farm owned 95% equity interest of Wuhan Xuemanting Beauty Cosmetics Co., Ltd.. The change of reserves amounted to RMB2,016,000 represented the difference between the amount of consideration and the relevant acquired identified net liabilities from non-controlling shareholder. The effect on the equity attributable to the owners of Shanghai Beauty Farm during the year ended 31 December 2020 is summarized as follows:

	<u>2020</u>
	<i>RMB'000</i>
Consideration paid to the non-controlling shareholder	(1,140)
Carrying amount of non-controlling interests	<u>(876)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>(2,016)</u></u>

- (b) In October 2021, the transaction with non-controlling interests comprised:

	<u>2021</u>
	<i>RMB'000</i>
Purchase of 12.345% of equity interest of Beijing Palaispa Business Management Co., Ltd. from non-controlling shareholders (<i>Note (i)</i>)	(18,379)
Purchase of 7.655% of equity interest of Beijing Palaispa Business Management Co., Ltd. from non-controlling shareholders (<i>Note (ii)</i>)	(11,035)
Issuance of equity interests of Shanghai Ranyou Business Management Co., Ltd. to the non-controlling shareholders (<i>Note (iii)</i>)	<u>4,151</u>
Others	<u>1,874</u>
	<u><u>(23,389)</u></u>

- (i) Shanghai Beauty Farm purchased additional 12.345% of equity interests of Beijing Palaispa Business Management Co., Ltd. from non-controlling shareholders at a consideration of RMB16,983,000. After this transaction, Shanghai Beauty Farm owned 82.345% equity interest of Beijing Palaispa Business Management Co., Ltd. The change of reserves amounted to RMB18,379,000 represented the difference between the amount of consideration and the relevant acquired identified net liabilities from non-controlling shareholder. The effect on the equity attributable to the owners of Shanghai Beauty Farm during the year ended 31 December 2021 is summarized as follows:

	<u>2021</u>
	<i>RMB'000</i>
Consideration paid to the non-controlling shareholder	(16,983)
Carrying amount of non-controlling interests	<u>(1,396)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>(18,379)</u></u>

- (ii) In October 2021, Shanghai Beauty Farm purchased additional 7.655% of equity interests of Beijing Palaispa Business Management Co., Ltd. from non-controlling shareholders at a consideration of RMB10,531,000. After this transaction, Shanghai Beauty Farm owned 90% equity interest of Beijing Palaispa Business Management Co., Ltd. The change of reserves amounted to RMB11,035,000 represented the difference between the amount of consideration and the relevant acquired identified net liabilities from non-controlling shareholder. The effect on the equity attributable to the owners of Shanghai Beauty Farm during the year ended 31 December 2021 is summarized as follows:

	<u>2021</u>
	<i>RMB'000</i>
Consideration paid to the non-controlling shareholder	(10,531)
Carrying amount of non-controlling interests	<u>(504)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>(11,035)</u></u>

- (iii) In December 2021, Shanghai Ranyou Business Management Co., Ltd. and Yanyi (Shanghai) Industrial Co., Ltd., two subsidiaries of Shanghai Beauty Farm, transferred the equity interests of several subsidiaries to registered practitioners under share awards given by the Group's subsidiaries, with the considerations amount to RMB7,256,000. The change of reserves of RMB4,151,000 represented the differences between the amount of consideration and the relevant disposed identified net assets. The effect on the equity attributable to the owners of Shanghai Beauty Farm during the year ended 31 December 2021 is summarized as follows:

	<u>2021</u>
	<i>RMB'000</i>
Consideration received from the non-controlling shareholder	7,256
Carrying amount of non-controlling interests	<u>(3,105)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>4,151</u></u>

- (c) In February 2022, Shanghai Beauty Farm purchased additional 30% of equity interests of Qingdao Aimei Medical Beauty Co., Ltd. from non-controlling shareholders at a consideration of RMB2,570,000. After this transaction, Shanghai Beauty Farm owned 100% equity interest of Qingdao Aimei Medical Beauty Co., Ltd. The change of reserves amounted to RMB2,711,000 represented the difference between the amount of consideration and the relevant acquired identified net assets from non-controlling shareholder. The effect on the equity attributable to the owners of Shanghai Beauty Farm during six months ended 30 June 2022 is summarized as follows:

	<u>2022</u>
	<i>RMB'000</i>
Consideration paid to the non-controlling shareholder	(2,570)
Carrying amount of non-controlling interests	<u>(141)</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>(2,711)</u></u>

In June 2022, Shanghai Beauty Farm disposed certain percentage of equity interests of Beijing Palaispa Business Management Co., Ltd. to non-controlling shareholder at a consideration of RMB4,101,000. The non-controlling shareholder is Shanghai Ziqi Business Management Partnership (Limited Partnership) that is the group's new shareholding platform. The change of reserves amounted to RMB4,119,000 represented the difference between the amount of consideration and the relevant acquired identified net assets from non-controlling shareholder. The effect on the equity attributable to the owners of Shanghai Beauty Farm during the period ended 30 June 2022 is summarized as follows:

	Six months ended 30 June 2022
	<i>RMB'000</i>
Consideration received from the non-controlling shareholder	4,101
Carrying amount of non-controlling interests	<u>18</u>
Excess of consideration of non-controlling interests received recognised in equity	<u><u>4,119</u></u>

The Company

	As at 30 June 2022
	<i>RMB'000</i>
As at 1 January 2022	–
Shared based payment	14,398
Capital contribution from owners of the Company (<i>Note</i>)	<u>76,263</u>
As at 30 June 2022	<u><u>90,661</u></u>

Note: Capital contribution from owners of the Company represented surplus of capital issued from ZYLot Holdings Limited and CITIC PE to the Company as set out in Note 1.2.

29 BORROWINGS

	As at 31 December						As at 30 June			
	2019		2020		2021		2022			
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Total	
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>			
Bank borrowings										
Secured	<u>12,740</u>	<u>6,370</u>	<u>19,110</u>	<u>6,370</u>	<u>–</u>	<u>6,370</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

All bank loans have been repaid in 2021. The bank borrowings as at 31 December 2020 were RMB6,370,000 (31 December 2019: RMB19,110,000), with annual interest rate of the 5.46% (2019: 5.46%).

The loans were secured by the Group's 70% equity interests in one of the subsidiaries.

As at 31 December 2019, 2020, 2021 and 30 June 2022, the Group's borrowings were repayable as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Within 1 year	12,740	6,370	-	-
Between 1 and 2 years	6,370	-	-	-
	<u>19,110</u>	<u>6,370</u>	<u>-</u>	<u>-</u>

The Group has complied with the financial covenants of its borrowing facilities during 2019, 2020, 2021, and for the six months ended 30 June 2021 and 2022.

30 OTHER CURRENT LIABILITIES

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
VAT recognised in relation to the contract liabilities	<u>56,056</u>	<u>70,261</u>	<u>80,513</u>	<u>82,992</u>

31 TRADE AND OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Trade payables				
–Third parties	<u>30,022</u>	<u>17,820</u>	<u>15,436</u>	<u>29,304</u>
Other payables and accruals				
Employee benefits payables (a)	65,438	80,441	105,943	70,435
Dividend payable (b)	33,961	-	5,521	5,437
Accrual expenses	11,303	14,574	12,057	9,669
Taxes payables	10,992	14,605	18,710	5,361
Constructions payables	10,784	10,156	10,425	11,233
Franchisee deposits	14,432	16,054	17,994	19,154
Listing expenses payable	-	-	10,731	14,919
Acquisition payable	-	7,559	-	-
Others	<u>17,770</u>	<u>19,535</u>	<u>33,681</u>	<u>22,243</u>
Total other payables and accruals	<u>164,680</u>	<u>162,924</u>	<u>215,062</u>	<u>158,451</u>

Trade payables are usually paid within 30 days of recognition. The Group's trade payables mainly include payments for finished goods. The credit term for finished goods is usually within 30 days.

The aging analysis of trade payables as at 31 December 2019, 2020 and 2021 and 30 June 2022 based on invoice date was follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Within 1 year	27,782	15,502	13,436	28,077
1-2 years	1,638	1,395	1,544	693
Over 2 years	602	923	456	534
	<u>30,022</u>	<u>17,820</u>	<u>15,436</u>	<u>29,304</u>

(a) **Employee benefits payables**

The employee benefits payables represented payables for employee salaries for December 2019, 2020, 2021 and June 2022, and accrual for bonuses and social welfare benefits.

The carrying amounts of trade and other payables and accruals are considered to approximate their fair values due to their short-term nature.

(b) **Dividend payable**

All the dividend payables have been subsequently settled.

The Company

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Other payables and accruals				
Listing expenses payable	-	-	-	14,919
Amount due to the subsidiary	-	-	-	3,268
	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,187</u>

32 DEFERRED INCOME TAX

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Deferred income tax assets	26,265	35,950	35,015	47,294
Deferred income tax liabilities	(2,946)	(6,218)	(8,744)	(10,027)
	<u>23,319</u>	<u>29,732</u>	<u>26,271</u>	<u>37,267</u>

The analysis of deferred income tax assets & liabilities is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Deferred income tax assets to be recovered after more than 12 months	113,740	112,026	109,502	109,128
Deferred income tax assets to be recovered within 12 months	21,921	25,813	23,844	36,391
Deferred income tax assets	135,661	137,839	133,346	145,519
Net-off of deferred income tax liabilities	(109,396)	(101,889)	(98,331)	(98,225)
Net deferred tax assets	<u>26,265</u>	<u>35,950</u>	<u>35,015</u>	<u>47,294</u>

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Deferred income tax liabilities to be settled after more than 12 months	94,189	87,862	87,928	81,180
Deferred income tax liabilities to be settled within 12 months	18,153	20,245	19,147	27,072
Deferred income tax liabilities	112,342	108,107	107,075	108,252
Net-off of deferred income tax assets	(109,396)	(101,889)	(98,331)	(98,225)
Net deferred tax liabilities	<u>2,946</u>	<u>6,218</u>	<u>8,744</u>	<u>10,027</u>

The net movement on the deferred income tax account is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
At beginning of the year	12,500	23,319	29,732	26,271
Credited/(Charged) to income tax expense	10,819	6,413	(3,461)	10,996
At end of the year	<u>23,319</u>	<u>29,732</u>	<u>26,271</u>	<u>37,267</u>

The gross movements in deferred income tax assets and deferred income tax liabilities during the Track Record Period are as follows

(1) Deferred income tax assets:

	Accumulated loss	Unrealized profit	Lease liabilities	Allowance on doubtful debts	Allowance on Inventory	Accrued Expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	3,937	4,984	121,802	2,346	857	2,319	136,245
Credited/(charged) to the profit or loss	5,607	3,538	(8,062)	(1,628)	70	(109)	(584)
At 31 December 2019 and 1 January 2020	<u>9,544</u>	<u>8,522</u>	<u>113,740</u>	<u>718</u>	<u>927</u>	<u>2,210</u>	<u>135,661</u>
Credited/(charged) to the profit or loss	4,705	(596)	(1,714)	(135)	172	(254)	2,178
At 31 December 2020 and 1 January 2021	<u>14,249</u>	<u>7,926</u>	<u>112,026</u>	<u>583</u>	<u>1,099</u>	<u>1,956</u>	<u>137,839</u>
Credited/(charged) to the profit or loss	351	(3,377)	(2,524)	848	481	(272)	(4,493)
At 31 December 2021	<u>14,600</u>	<u>4,549</u>	<u>109,502</u>	<u>1,431</u>	<u>1,580</u>	<u>1,684</u>	<u>133,346</u>
Credited/(charged) to the profit or loss	10,031	1,533	(374)	(58)	517	524	12,173
At 30 June 2022	<u>24,631</u>	<u>6,082</u>	<u>109,128</u>	<u>1,373</u>	<u>2,097</u>	<u>2,208</u>	<u>145,519</u>

(2) Deferred income tax liabilities:

	Depreciation of property, plant and equipment	Right-of-use assets	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2019	3,963	119,782	123,745
Credited to profit or loss	(145)	(11,258)	(11,403)
At 31 December 2019	<u>3,818</u>	<u>108,524</u>	<u>112,342</u>
Charged/(credited) to profit or loss	3,835	(8,070)	(4,235)
At 31 December 2020	<u>7,653</u>	<u>100,454</u>	<u>108,107</u>
Charged/(credited) to profit or loss	2,159	(3,191)	(1,032)
At 31 December 2021	<u>9,812</u>	<u>97,263</u>	<u>107,075</u>
Charged/(credited) to profit or loss	215	962	1,177
At 30 June 2022	<u>10,027</u>	<u>98,225</u>	<u>108,252</u>

33 CASH FLOW INFORMATION

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before income tax	179,763	188,531	255,102	127,282	26,040
Adjustments for:					
Depreciation of property, plant and equipment (Note 15)	70,884	90,184	85,535	41,945	43,129
Depreciation of investment properties (Note 16)	-	-	3,481	1,774	1,698
Amortisation of intangible assets (Note 18)	9,760	10,423	12,058	6,526	7,919
Depreciation of right-of-use asset (Note 17)	143,013	158,642	174,114	82,675	91,922
Provision for/(reversal of) loss allowance on trade and other receivables (Note 25)	(4,571)	(2,015)	1,306	550	(230)
Provision of impairment on inventory (Note 24)	123	1,075	712	(839)	2,069
Loss on disposal of property, plant and equipment	2,158	3,882	2,640	188	470
Reorganisation costs (Note 9)	-	-	-	-	7,279
Finance costs (Note 11)	28,264	25,928	24,216	12,325	12,045
Share-based compensation (Note 10)	1,592	6,988	6,290	2,852	6,419
Provision of impairment on property, plant and equipment (Note 15)	-	862	-	-	-
Provision of impairment on intangible assets (Note 18)	-	-	34	-	-
Net fair value gains on financial assets at FVPL (Note 8)	(8,016)	(13,425)	(23,407)	(10,839)	(9,825)
Gains/(losses) on disposal of the subsidiaries	1,000	(310)	-	-	-
Interest income derived from amount due to related parties	(994)	-	-	-	-
Operating profit before working capital changes	422,976	470,765	542,081	264,439	188,935
Changes in working capital:					
Restricted cash	-	-	(10,254)	(10,239)	(16)
Inventories	(5,279)	11,267	(31,733)	(25,429)	(22,247)
Trade receivables, other receivables and prepayments	30,165	(14,979)	(9,316)	(46,800)	(23,810)
Contract liabilities	84,372	236,634	165,855	86,532	45,417
Trade payables, other payables and accruals	(36,542)	13,547	59,229	12,727	(36,553)
Net cash generated from operations activities	495,692	717,234	715,862	281,230	151,726

(b) Non-cash financing activities

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Addition of right-of-use assets	80,032	95,347	159,442	110,494	104,272

(c) Net debt reconciliation

	Note	As at December 31			As at 30 June
		2019	2020	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	26	104,819	143,538	157,284	149,696
Borrowings	29	(19,110)	(6,370)	–	–
Lease liabilities	17	(549,880)	(509,320)	(515,460)	(513,755)
Dividend payable	31	(33,961)	–	(5,521)	(5,437)
Net debt		(498,132)	(372,152)	(363,697)	(369,496)
Cash and cash equivalents	26	104,819	143,538	157,284	149,696
Gross debt		(602,951)	(515,690)	(520,981)	(519,192)
Net debt		(498,132)	(372,152)	(363,697)	(369,496)

	Liabilities from financing activities			Other assets	
	Leases	Dividend payable	Borrowings	Cash and cash equivalents	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2019	(590,321)	(37,499)	(30,940)	148,774	(509,986)
Cash flows	147,297	80,659	11,830	(43,643)	196,143
Exchange losses on cash and cash equivalents	-	-	-	(312)	(312)
New leases	(80,032)	-	-	-	(80,032)
Dividends declared	-	(77,121)	-	-	(77,121)
Finance costs recognised	(26,824)	-	-	-	(26,824)
Net debt as at 31 December 2019	(549,880)	(33,961)	(19,110)	104,819	(498,132)
Cash flows	160,732	106,751	12,740	38,259	318,482
Exchange gains on cash and cash equivalents	-	-	-	460	460
New leases	(95,347)	-	-	-	(95,347)
Dividends declared	-	(72,790)	-	-	(72,790)
Finance costs recognised	(24,825)	-	-	-	(24,825)
Net debt as at 31 December 2020	(509,320)	-	(6,370)	143,538	(372,152)
Cash flows	177,501	81,156	6,370	13,521	278,548
Exchange gains on cash and cash equivalents	-	-	-	225	225
New leases	(159,442)	-	-	-	(159,442)
Dividends declared	-	(86,677)	-	-	(86,677)
Finance costs recognised	(24,199)	-	-	-	(24,199)
Net debt as at 31 December 2021	(515,460)	(5,521)	-	157,284	(363,697)
Cash flows	118,022	122,566	-	(8,000)	232,588
Exchange gains on cash and cash equivalents	-	-	-	412	412
New leases	(104,272)	-	-	-	(104,272)
Dividends declared	-	(122,482)	-	-	(122,482)
Finance costs recognised	(12,045)	-	-	-	(12,045)
Net debt as at 30 June 2022	(513,755)	(5,437)	-	149,696	(369,496)

34 RELATED PARTY TRANSACTIONS

(a) Related parties of the Group during the Track Record Period

Name of related parties	Relationship
Zhongjingxin Tourism Investment Development Co., Ltd.	Shareholder of the Company and controlled by the same ultimate shareholder
Shaanxi Character Montessori Enterprise Management Service Co., Ltd.	Shareholder of the Company and controlled by the same ultimate shareholder
Hainan Qiyang Stem Cell Anti-aging Hospital Co., Ltd.	Controlled by the Controlling Shareholders
Shanghai Youyi Business Management Partnership (Limited Partnership)	Shareholder of the Company
Beijing Xinyu Meiye Holdings Limited	Shareholder of the Company

Save as disclosed in Note 1.2 and 25 of this report, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the Track Record Period, and balances with related parties as at the respective balance sheet dates.

(b) Transactions with related parties

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(i) Cooperation fee in relation to subhealth assessment and intervention services					
Hainan Qiyang Stem Cell Anti-aging Hospital Co., Ltd.	-	-	17,159	6,285	10,165
(ii) Rental income					
Hainan Qiyang Stem Cell Anti-aging Hospital Co., Ltd.	-	-	5,592	2,814	2,936
(iii) Borrowings to a related party					
Shanghai Youyi Business Management Partnership (Limited Partnership)	5,000	-	-	-	-
(iv) Repayment of borrowings from related parties					
Shaanxi Character Montessori Enterprise Management Service Co., Ltd.	27,715	-	-	-	-
Zhongjingxin Tourism Investment Development Co., Ltd.	30,000	6,950	-	-	-
Shanghai Youyi Business Management Partnership (Limited Partnership)	14,200	-	-	-	-
	<u>71,915</u>	<u>6,950</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(v) Interest income from borrowings to related parties					
Zhongjingxin Tourism Investment Development Co., Ltd.	214	-	-	-	-
Shaanxi Character Montessori Enterprise Management Service Co., Ltd.	780	-	-	-	-
	<u>994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(vi) Receivables of equity transactions from related parties					
Beijing Xinyu Meiye Holdings Limited	-	-	-	-	72,294
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,294</u>
(c) Balances with related parties					

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from related parties				
Trade				
Hainan Qiyang Stem Cell Anti-aging Hospital Co., Ltd.	-	-	10,849	13,954
Non-trade				
Zhongjingxin Tourism Investment Development Co., Ltd. (a)	6,950	-	-	-
Beijing Xinyu Meiye Holdings Limited (Note 25) (b)	-	-	-	72,294
	<u>6,950</u>	<u>-</u>	<u>10,849</u>	<u>86,248</u>

- (a) The amount due from Zhongjingxin Tourism Investment Development Co., Ltd. was unsecured, with interest bearing at 11% per annum and without fixed repayment terms; The amounts due from other related parties were unsecured, non-interest bearing and without fixed repayment terms.
- (b) The amount due from Beijing Xinyu Meiye Holdings Limited was subsequently collected on or before 1 July 2022 (Note 1.2(c)).

35 COMMITMENTS

(a) Capital commitments

Significant capital expenditure commitments are set out below:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Contracted but not provided for:				RMB'000
Property, plant and equipment	17,328	17,370	21,579	23,677

(b) Non-cancellable short-term operating leases

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Less than 1 year	3,170	5,024	6,685	4,986

36 BUSINESS COMBINATION

(a) Summary of acquisition

During the Track Recorded Period, the Group acquired business from third parties to enlarge the Group's market share in the industry. Details of the purchase consideration, the net liabilities acquired and goodwill are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Purchase consideration (refer to (b) below):				RMB'000
Cash paid	–	6,016	11,297	2,000
Total purchase consideration	–	6,016	11,297	2,000

The assets and liabilities recognised as a result of the acquisition are as follows:

<u>Six months ended 30 June 2022</u>	<u>Luan mei</u>			
	<i>RMB'000</i>			
Cash and cash equivalents				1,768
Trade receivable				12
Prepayments				28
Other receivables				202
Tax payables				(10)
				<hr/>
Net identifiable assets acquired				2,000
Shares acquired percentage				100%
				<hr/>
Shares of net identifiable assets acquired				2,000
				<hr/>
Net assets acquired				<u>2,000</u>
				<hr/>
				Wuhan
				Yingmier
				<i>RMB'000</i>
Inventories				880
Other receivables				3,000
Intangible assets – customer relationship				11,000
Other payables				(1,531)
Contract liabilities – service				(26,768)
				<hr/>
Net identifiable liabilities acquired				(13,419)
Shares acquired percentage				100%
				<hr/>
Shares of net identifiable assets acquired				(13,419)
Add: goodwill				18,216
				<hr/>
Net assets acquired				<u>4,797</u>
				<hr/>
				2020
	Shanxi	Chengdu	Xi'an	Total
	Lixing	Jinchun	Manzelian	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other current assets	1,799	155	515	2,469
Property, plant and equipment	6,412	112	1,422	7,946
Intangible assets – customer relationship	5,900	2,900	7,528	16,328
Contract liabilities	(7,396)	(3,816)	(15,444)	(26,656)
Other current liabilities	(19,823)	–	–	(19,823)
	<hr/>	<hr/>	<hr/>	<hr/>
Net identifiable liabilities acquired	<u>(13,108)</u>	<u>(649)</u>	<u>(5,979)</u>	<u>(19,736)</u>
	<hr/>	<hr/>	<hr/>	<hr/>

2020	Shanxi Lixing	Chengdu Jinchun	Xi'an Manzelian	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shares acquired percentage	51%	100%	100%	
Less: non-controlling interests	(6,423)	–	–	(6,423)
Shares of net identifiable liabilities acquired	(6,685)	(649)	(5,979)	(13,313)
Add: goodwill	8,645	2,165	12,979	23,789
Cash used for capital injection	2,040	–	–	2,040
Net assets acquired	<u>4,000</u>	<u>1,516</u>	<u>7,000</u>	<u>12,516</u>

(b) Purchase consideration – cash outflow

The goodwill of approximately RMB18,216,000 arising from the acquisition in 2021 and RMB23,789,000 in 2020 respectively are attributable to the synergy of business expansion within a city. None of the goodwill recognised is expected to be deductible for income tax purpose.

Luanmei contributed revenue of RMB450,000 and net loss of RMB24,000 to the Group for the six month ended 30 June 2022. If the acquisition had occurred on 1 January 2022, consolidated pro-forma revenue and net profit for the six month ended 30 June 2022 of the Group would have been RMB737,921,000 and RMB27,133,000 respectively.

Wuhan Yingmier contributed revenue of RMB7,290,000 and net loss of RMB784,000 to the Group for the year of 2021. If the acquisition had occurred on 1 January 2021, consolidated pro-forma revenue and net profit for the year of 2021 of the Group would have been RMB1,788,030,000 and RMB207,556,000, respectively.

Shanxi Lixing, Chengdu Jinchun and Xi'an Manzelian contributed revenue of RMB7,962,000 and net profit of RMB417,000 to the Group for the year of 2020. If the acquisition had occurred on 1 January 2020, consolidated pro-forma revenue and net profit for the year of 2020 of the Group would have been RMB1,519,712,000 and RMB150,471,000, respectively.

	2019	2020	2021	Six months ended 30 June 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	–	6,016	11,297	2,000
Less: Balances acquired				
Cash	–	(487)	–	(1,768)
Net outflow of cash – investing activities	<u>–</u>	<u>5,529</u>	<u>11,297</u>	<u>232</u>

37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Remuneration of every director and the chief executive during the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022 was as follows:

Name of Directors	Salary	Discretionary Bonus	Social security costs housing benefits and other employee benefits	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2019					
Executive directors:					
Mr. Li Yang	255	300	8	1	564
Mr. Lian Songyong	984	877	101	257	2,219
Non-executive Directors:					
Ms. Li Fangyu	87	-	-	-	87
Mr. Geng Jiaqi*	-	-	-	-	-
Mr. Zhai Feng*	-	-	-	-	-
	1,326	1,177	109	258	2,870
For the year ended 31 December 2020					
Executive directors:					
Mr. Li Yang	261	-	-	1	262
Mr. Lian Songyong	902	140	108	257	1,407
Non-executive Directors:					
Ms. Li Fangyu	85	-	-	-	85
Mr. Geng Jiaqi*	-	-	-	-	-
Mr. Zhai Feng*	-	-	-	-	-
	1,248	140	108	258	1,754
For the year ended 31 December 2021					
Executive directors:					
Mr. Li Yang	367	287	-	877	1,531
Mr. Lian Songyong	1,007	1,378	121	257	2,763
Non-executive Directors:					
Ms. Li Fangyu	87	-	-	-	87
Mr. Geng Jiaqi*	-	-	-	-	-
Mr. Zhai Feng*	-	-	-	-	-
	1,461	1,665	121	1,134	4,381

Name of Directors	Salary	Discretionary Bonus	Social security costs housing benefits and other employee benefits	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2021 (Unaudited)					
Executive directors:					
Mr. Li Yang	183	144	-	1	328
Mr. Lian Songyong	503	532	58	129	1,222
Non-executive Directors:					
Ms. Li Fangyu	32	-	10	-	42
Mr. Geng Jiaqi*	-	-	-	-	-
Mr. Zhai Feng*	-	-	-	-	-
	<u>718</u>	<u>676</u>	<u>68</u>	<u>130</u>	<u>1,592</u>
For the six months ended 30 June 2022					
Executive directors:					
Mr. Li Yang	185	140	-	1,314	1,639
Mr. Lian Songyong	505	614	64	129	1,312
Non-executive Directors:					
Ms. Li Fangyu	32	-	12	-	44
Mr. Geng Jiaqi*	-	-	-	-	-
Mr. Zhai Feng*	-	-	-	-	-
Independent non-executive Directors:					
Mr. Fan Mingchao	-	-	-	-	-
Mr. Liu Teng	-	-	-	-	-
Mr. Jiang Hua	-	-	-	-	-
	<u>722</u>	<u>754</u>	<u>76</u>	<u>1,443</u>	<u>2,995</u>

* Mr. Geng Jiaqi and Mr. Zhai Feng are non-executive directors designated by a shareholder and have no labour relation with the Group. Therefore they do not receive any emoluments from the Group during the track record period.

No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office or no directors waived or agreed to waive any emoluments during the years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2021 and 2022.

(b) Directors' retirement and termination benefits

There were no retirement and termination benefits paid to any director during the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022.

(c) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022, no consideration to third parties for making available director's services.

(d) Directors' material interests in transactions, arrangements or contracts

Other than those disclosed in Note 34, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2019, 2020, 2021 and 30 June 2022 or at any time during the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022.

38 DETAILS OF SUBSIDIARIES

The Registered Shareholders, Shanghai Beauty Farm and the Medical Institutions have entered into exclusive operation services agreements with Shanghai Liernuo on 13 June 2022, (the "Exclusive Operation Services Agreement"), pursuant to which, the Medical Institutions, Registered Shareholders and Shanghai Beauty Farm agreed to engage Shanghai Liernuo as their exclusive provider of technical support, consulting services and other services in exchange for a service fee. Further details of the Contractual Arrangements are set out in Note 2.1.4.

Company name	Date of incorporation	Country/Place of incorporation/ establishment	Registered/Issued and paid-up capital		Effective interest held				At the date of report	Principle activities
					As at 31 December		As at 30 June			
					2019	2020	2021	2022		
('000, in RMB unless otherwise stated)										
Directly hold:										
Beauty Farm Medical and Health Industry Inc.	10 February 2022	Cayman Islands limited liability company	USD50	USD50	N/A	N/A	N/A	100%	100%	Holding company
Beauty Farm Medical and Health Industry Limited	22 February 2022	Hong Kong, China limited liability company	HKD10	HKD10	N/A	N/A	N/A	100%	100%	Holding company
Aiyumei (Shanghai) Enterprise Management Co., Ltd.	10 March 2022	Mainland China, limited liability company	3,800	3,800	N/A	N/A	N/A	100%	100%	Holding company
Beautyfarm Hongkong Limited 美麗田園香港有限公司	6 January 2014	Hong Kong, China limited liability company	12,204	12,204	100%	100%	100%	100%	100%	Holding company
Beijing Beauty Farm Beauty Technology Co., Ltd. 北京美麗田園美容科技有限公司	27 July 2006	Mainland China, limited liability company	2,000	2,000	100%	96%	95%	95%	95%	Provision of traditional beauty services
Beijing Beauty Farm Enterprise Management Consulting Co., Ltd. 北京美麗田園企業管理諮詢有限公司	26 August 2011	Mainland China, limited liability company	2,000	2,000	100%	96%	95%	95%	95%	Provision of traditional beauty services
Beijing Limei Farm Beauty Co., Ltd. 北京麗美田園美容有限公司	20 September 2012	Mainland China, limited liability company	1,000	1,000	75%	72%	71%	71%	71%	Provision of traditional beauty services
Beijing Limei Farm Enterprise Management Co., Ltd. 北京麗美田園企業管理有限公司	9 September 2013	Mainland China, limited liability company	500	500	75%	72%	71%	71%	71%	Provision of traditional beauty services
Beijing Manshu Enterprise Management Co., Ltd. 北京曼束企業管理服務有限公司	25 October 2013	Mainland China, limited liability company	500	500	86%	82%	82%	82%	82%	Provision of traditional beauty services

Company name	Date of incorporation	Country/Place of incorporation/ establishment	Registered/Issued and paid-up capital		Effective interest held				At the date of report	Principle activities
					As at 31 December		As at 30 June			
					2019	2020	2021	2022		
			<i>(‘000, in RMB unless otherwise stated)</i>							
Beijing Palaispa Business Management Co., Ltd. 北京貝黎詩商業管理有限公司	13 September 2016	Mainland China, limited liability company	10,000	10,000	70%	70%	82%	85%	85%	Provision of traditional beauty services
Changchun Zhuoyan Beauty Service Co., Ltd. 長春卓妍美容服務有限公司	29 September 2009	Mainland China, limited liability company	500	500	70%	66%	66%	66%	66%	Provision of traditional beauty services
Changsha Yuhua Xiukeer Medical Beauty Clinic Co., Ltd. 長沙雨花區秀可兒醫療美容診所有限公司 ⁽⁴⁾	6 June 2019	Mainland China, limited liability company	1,000	1,000	60%	60%	60%	60%	60%	Provision of aesthetic medical services
Chengdu Jiahao Beauty Service Co., Ltd. 成都嘉好美容服務有限公司	8 December 2010	Mainland China, limited liability company	500	500	56%	100%	100%	97.5%	97.5%	Provision of traditional beauty services
Chengdu Meishu Beauty Co., Ltd. 成都美束美容有限公司	16 February 2015	Mainland China, limited liability company	1,000	100	100%	100%	100%	97.5%	97.50%	Provision of traditional beauty services
Chengdu Wuhou Meiju Medical Beauty Clinic Co., Ltd. 成都武侯美聚醫療美容診所有限公司 ⁽¹⁰⁾	12 November 2015	Mainland China, limited liability company	200	200	100%	100%	100%	100%	N/A	Provision of aesthetic medical services
Chongqing Beauty Farm Beauty Development Co., Ltd. 重慶美麗田園美容發展有限公司	28 September 1998	Mainland China, limited liability company	5,600	5,600	95%	91%	90%	90%	90%	Provision of traditional beauty services
Chongqing Liyan Medical Beauty Clinic Co., Ltd. 重慶麗研醫療美容門診部有限公司 ⁽¹⁾	31 August 2018	Mainland China, limited liability company	2,000	2,000	95%	91%	90%	90%	90%	Provision of aesthetic medical services
Haikou Limei Beauty Co., Ltd. 海口麗美美容有限公司	27 January 2011	Mainland China, limited liability company	1,000	1,000	100%	97%	98%	98%	98%	Provision of traditional beauty services
Hainan Meirui International Medical&Health Industry Co., Ltd. 海南美瑞國際醫療健康產業有限公司	14 January 2016	Mainland China, limited liability company	30,000	30,000	100%	100%	100%	100%	100%	Provision of traditional beauty services
Hainan Qiyuan Stem Cell Anti-Aging Hospital Co., Ltd. 海南啟研幹細胞抗衰老醫院有限公司 ⁽²⁾	28 January 2016	Mainland China, limited liability company	20,000	20,000	100%	N/A	N/A	N/A	N/A	Operation of a hospital primarily focused on the provision of frontier medical services
Hangzhou Beauty Farm Beauty Co., Ltd. 杭州美麗田園美容有限公司	28 July 2003	Mainland China, limited liability company	1,500	1,500	100%	99%	97%	97%	97%	Provision of traditional beauty services
Hefei Beauty Farm Beauty Service Co., Ltd. 合肥美麗園田美容服務有限公司	23 October 2018	Mainland China, limited liability company	3,000	3,000	75%	73%	62%	62%	62%	Provision of traditional beauty services

Company name	Date of incorporation	Country/Place of incorporation/ establishment	Registered/Issued and paid-up capital		Effective interest held				At the date of report	Principle activities
					As at 31 December		As at 30 June			
					2019	2020	2021	2022		
<i>(/000, in RMB unless otherwise stated)</i>										
Hefei Limei Farm Beauty Service Co., Ltd. 合肥麗美田園美容服務有限公司	15 February 2012	Mainland China, limited liability company	2,500	995	95%	95%	N/A	N/A	N/A	Provision of traditional beauty services
Nanjing Xuanwu Ouhua Medical Beauty Clinic Co., Ltd. 南京玄武歐華醫療美容診所有限公司 ⁽¹¹⁾	15 November 2010	Mainland China, limited liability company	2,600	2,600	100%	100%	100%	100%	N/A	Provision of aesthetic medical services
Nanning Xiukeer Medical Beauty Clinic Co., Ltd. 南寧秀可兒醫療美容診所有限公司 ⁽⁴⁾	26 March 2020	Mainland China, limited liability company	750	750	N/A	60%	60%	60%	60%	Provision of aesthetic medical services
Ningbo Haishu New Beautiful Farm Beauty Co., Ltd. 寧波海曙新美麗田園美容有限公司	16 June 2004	Mainland China, limited liability company	500	500	100%	100%	100%	100%	100%	Provision of traditional beauty services
Sanya Beauty Farm Beauty Service Co., Ltd. 三亞美麗田園美容服務有限公司	16 May 2011	Mainland China, limited liability company	500	500	51%	51%	51%	51%	51%	Provision of traditional beauty services
Shanghai Beauty Farm Vocational Skills Training Co., Ltd. 上海美麗田園職業技能培訓有限責任公司	04 June 2020	Mainland China, limited liability company	1,000	1,000	N/A	100%	100%	100%	100%	Training school
Shanghai Lingxiu Business Management Co., Ltd. 上海頌秀商業管理有限公司	03 April 2019	Mainland China, limited liability company	1,000	1,000	70%	70%	82%	85%	85%	Management company
Shanghai Luanmei E-Commerce Co., Ltd. 上海樂美電子商務有限公司	13 March 2018	Mainland China, limited liability company	20,000	20,000	80%	N/A	N/A	100%	100%	Provision of E-business
Shanghai Meiju Medical Technology Development Co., Ltd. 上海美聚醫療科技發展有限公司	23 December 2010	Mainland China, limited liability company	1,000	1,000	100%	100%	100%	100%	100%	Products sales
Shanghai Meili Tianyuan Beauty Development Co., Ltd. 上海美麗田園美容發展有限公司	24 July 1998	Mainland China, limited liability company	5,000	5,000	100%	97%	96%	96%	96%	Provision of traditional beauty services
Shanghai Ouhua Medical Beauty Clinic Co., Ltd. 上海歐華醫療美容門診部有限公司 ⁽³⁾	12 August 2011	Mainland China, limited liability company	1,000	510	100%	N/A	N/A	N/A	N/A	Provision of aesthetic medical services
Shanghai Palaispa Business Management Co., Ltd. 上海貝黎詩商業管理有限公司	13 September 2017	Mainland China, limited liability company	1,000	1,000	70%	70%	82%	85%	85%	Provision of traditional beauty services
Shanghai Ronglin Information Technology Co., Ltd. 上海融麟信息科技有限公司	14 July 2014	Mainland China, limited liability company	10,000	2,000	100%	100%	100%	100%	100%	IT service
Shanghai Xiujia Business Management Co., Ltd. 上海秀嘉商業管理有限公司	21 March 2019	Mainland China, limited liability company	1,000	1,000	70%	70%	82%	85%	85%	Management company
Shanghai Xuanyan Business Management Co., Ltd. 上海喧顏商業管理有限公司	13 June 2019	Mainland China, limited liability company	1,000	1,000	70%	70%	82%	85%	85%	Management company

Company name	Date of incorporation	Country/Place of incorporation/ establishment	Registered/Issued and paid-up capital		Effective interest held				At the date of report	Principle activities
					As at 31 December		As at 30 June			
					2019	2020	2021	2022		
			<i>(/000, in RMB unless otherwise stated)</i>							
Shanghai Yigao Industrial Co., Ltd. 上海逸高實業有限公司	26 July 2010	Mainland China, limited liability company	1,000	1,000	100%	100%	100%	100%	100%	Products sales
Shanxi Lixing Tianxia Beauty Co., Ltd. 山西麗行天下美容有限公司	6 March 2018	Mainland China, limited liability company	3,673	3,673	N/A	51%	51%	51%	51%	Provision of traditional beauty services
Shenzhen Beauty Farm Beauty Co., Ltd. 深圳市美麗田園美容有限公司	17 March 2008	Mainland China, limited liability company	2,000	2,000	100%	97%	95%	95%	95%	Provision of traditional beauty services
Shenzhen Qiyao Medical Beauty Clinic 深圳啟研醫療美容診所 ⁽¹⁾	17 November 2016	Mainland China, limited liability company	2,000	200	100%	100%	100%	100%	100%	Provision of aesthetic medical services
Taiyuan Xiaodian Yanpan Medical Beauty Clinic Co., Ltd. 太原市小店區妍潘醫療美容診所有限公司 ⁽⁴⁾	4 January 2017	Mainland China, limited liability company	2,000	2,000	60%	60%	60%	60%	60%	Provision of aesthetic medical services
Tianjin Beauty Farm Enterprise Management Co., Ltd. 天津美麗田園企業管理服務有限公司	19 June 2012	Mainland China, limited liability company	3,636	3,636	100%	100%	76%	76%	76%	Provision of traditional beauty services
Wuhan Beauty Farm School 武漢美麗田園美容職業培訓學校	06 February 2007	Mainland China	1,000	1,000	100%	N/A	N/A	N/A	N/A	Training school
Wuhan Beauty Farm Vocational Skills Training Co., Ltd. 武漢美麗田園職業培訓學校有限責任公司	24 September 2020	Mainland China, limited liability company	500	500	N/A	100%	100%	100%	100%	Training school
Wuhan Handerui Beauty Co., Ltd. 武漢市漢德瑞美容有限公司	10 June 2010	Mainland China, limited liability company	700	700	73%	69%	69%	69%	69%	Provision of traditional beauty services
Wuhan Meiju Beauty Development Co., Ltd. 武漢美聚美容發展有限公司	16 November 2011	Mainland China, limited liability company	2,000	2,000	95%	90%	89%	89%	89%	Provision of traditional beauty services
Wuhan Mengze Jingru Beauty Co., Ltd. 武漢夢澤境如美有限公司	24 March 2011	Mainland China, limited liability company	700	700	70%	67%	66%	66%	66%	Provision of traditional beauty services
Wuhan Xuemanting Beauty Cosmetics Co., Ltd. 武漢市雪曼婷理容化妝品有限公司	22 October 2002	Mainland China, limited liability company	500	500	70%	95%	N/A	N/A	N/A	Provision of traditional beauty services
Wuhan Yijiangpan Beauty Co., Ltd. 武漢依江畔美容有限公司	1 November 2013	Mainland China, limited liability company	700	700	100%	95%	94%	94%	94%	Provision of traditional beauty services
Wuxi Xiukeer Medical Beauty Clinic Co., Ltd. 無錫秀可兒醫療美容診所有限公司 ⁽⁴⁾	15 May 2020	Mainland China, limited liability company	2,450	2,450	N/A	60%	60%	60%	60%	Provision of aesthetic medical services
Xian Beauty Farm Beauty Service Co., Ltd. 西安美麗田園美容服務有限公司	24 February 2012	Mainland China, limited liability company	1,667	1,667	60%	60%	59%	59%	59%	Provision of traditional beauty services
Yanyi (Shanghai) Industrial Co., Ltd. 森逸(上海)實業有限公司	05 February 2018	Mainland China, limited liability company	10,000	10,000	90%	100%	100%	100%	100%	Products sales
Zhengzhou Beauty Farm Trading Co., Ltd. 鄭州美麗田園商貿有限公司	30 August 2012	Mainland China, limited liability company	1,500	1,500	100%	98%	95%	95%	95%	Provision of traditional beauty services

Company name	Date of incorporation	Country/Place of incorporation/ establishment	Registered/Issued and paid-up capital		Effective interest held				At the date of report	Principle activities
					As at 31 December		As at 30 June			
					2019	2020	2021	2022		
<i>(‘000, in RMB unless otherwise stated)</i>										
Controlled by the Company pursuant to the Contractual Agreements (Note 2.1.4)										
Shanghai Liernuo Industry Development Co., Ltd 上海麗爾諾實業發展有限公司	10 March 2022	Mainland China, limited liability company	1,000	-	N/A	N/A	N/A	100%	100%	Holding company that holds no more than 30% equity interest of Restricted Medical Institutions
Controlled by the Company through directly hold and pursuant to the Contractual Agreements (Note 2.1.4)										
Shanghai Xiukeer Clinic Co., Ltd. 上海秀可兒門診部有限公司	30 November 2017	Mainland China, limited liability company	30,000	30,000	100%	100%	100%	100%	100%	Provision of aesthetic medical services and subhealth assessment and intervention services
Ningbo Jiangbei Yongjiang Xiuke'er Medical Beauty Clinic Co., Ltd. 寧波江北甬江秀可兒醫療美容診所有限公司	22 March 2021	Mainland China, limited liability company	1,500	1,500	N/A	N/A	100%	100%	100%	Provision of aesthetic medical services
Nanjing Xiukeer Medical Beauty Clinic Co., Ltd. 南京秀可兒醫療美容診所有限公司	30 April 2020	Mainland China, limited liability company	2,000	2,000	N/A	100%	100%	100%	100%	Provision of aesthetic medical services
Shenzhen Xiukeer General Outpatient Department 深圳秀可兒綜合門診部	23 March 2021	Mainland China, limited liability company	10,000	10,000	N/A	N/A	100%	100%	100%	Provision of aesthetic medical services and subhealth assessment and intervention services
Hangzhou Liyan Medical Beauty Clinic Co., Ltd. 杭州麗研醫療美容診所有限公司	29 September 2018	Mainland China, limited liability company	1,000	1,000	100%	100%	100%	100%	100%	Provision of aesthetic medical services
Zhengzhou Liyan Medical Beauty Service Co., Ltd. 鄭州麗研醫療美容服務有限公司	5 September 2018	Mainland China, limited liability company	1,000	1,000	100%	100%	100%	100%	100%	Provision of aesthetic medical services
Haikou Meilan Meishuyue Medical Beauty Clinic Co., Ltd. 海口美蘭美束悅醫療美容門診部有限公司	21 August 2017	Mainland China, limited liability company	1,000	1,000	100%	100%	100%	100%	100%	Provision of aesthetic medical services
Beijing Hexin Medical Beauty Clinic Co., Ltd. 北京禾欣醫療美容門診部有限公司	22 September 2015	Mainland China, limited liability company	5,000	5,000	100%	100%	100%	100%	100%	Provision of aesthetic medical services
Beijing Yanyuan Clinic Co., Ltd. 北京研源診所有限公司 ⁽⁵⁾	6 August 2021	Mainland China, limited liability company	5,000	5,000	N/A	N/A	100%	100%	100%	Provision of subhealth assessment and intervention services
Chengdu Gaoxin Xiuke'er Medical Beauty Clinic Co., Ltd. 成都高新秀可兒醫療美容診所有限公司	27 July 2020	Mainland China, limited liability company	500	500	N/A	100%	100%	100%	100%	Provision of aesthetic medical services
Chongqing Xiukeer General Outpatient Department Co., Ltd. 重慶秀可兒綜合門診部有限公司	13 November 2020	Mainland China, limited liability company	20,000	20,000	N/A	91%	90%	95%	95%	Provision of aesthetic medical services and subhealth assessment and intervention services
Xian Meiju Medical Technology Development Co., Ltd. 西安美聚醫療科技發展有限公司 ⁽⁶⁾	24 November 2015	Mainland China, limited liability company	2,000	2,000	84%	84%	84%	84%	84%	Provision of aesthetic medical services

Company name	Date of incorporation	Country/Place of incorporation/ establishment	Registered/Issued and paid-up capital		Effective interest held				At the date of report	Principle activities
					As at 31 December		As at 30 June			
					2019	2020	2021	2022		
			<i>(/000, in RMB unless otherwise stated)</i>							
Wuhan Qiyang General Outpatient Department Co., Ltd. 武漢啟研綜合門診部有限公司	10 May 2019	Mainland China, limited liability company	21,053	21,053	95%	95%	90.25%	90.25%	90.25%	Provision of aesthetic medical services and subhealth assessment and intervention services
Beijing Meishu Laser Medical Clinic Co., Ltd. 北京美萊激光醫療診所有限公司 ⁽⁷⁾	25 June 2013	Mainland China, limited liability company	1,000	1,000	86%	86%	86%	86%	86%	Provision of subhealth assessment and intervention services
Changchun Meiju Medical Technology Development Co., Ltd. 長春美聚醫療科技發展有限公司 ⁽⁶⁾	17 May 2017	Mainland China, limited liability company	1,000	1,000	90%	90%	90%	90%	90%	Provision of aesthetic medical services
Qingdao Aimei Medical Beauty Co., Ltd. 青島艾美醫療美容有限公司 ⁽⁶⁾	11 November 2015	Mainland China, limited liability company	5,900	5,900	70%	70%	70%	100%	100%	Provision of aesthetic medical services
Haikou Xiukeer Medical Beauty Clinic Co., Ltd. 海口秀可兒醫療美容門診部有限公司 ⁽⁵⁾	15 February 2022	Mainland China, limited liability company	7,000	-	N/A	N/A	N/A	100%	100%	Provision of aesthetic medical services
Xian Beilin Xiukeer General Outpatient Department Co., Ltd. 西安碑林秀可兒綜合門診部有限公司 ⁽⁵⁾	9 March 2022	Mainland China, limited liability company	9,800	-	N/A	N/A	N/A	84%	84%	Provision of aesthetic medical services
Haikou Yanyuan Clinic Co., Ltd. (海口研源診所有限公司) ⁽⁵⁾	30 April 2022	Mainland China, limited liability company	1,200	840	N/A	N/A	N/A	100%	100%	Provision of subhealth assessment and intervention services
Hefei Xiukeer Medical Beauty Clinic Co., Ltd. (合肥秀可兒醫療美容診所有限公司) ⁽⁵⁾	15 June 2022	Mainland China, limited liability company	1,000	700	N/A	N/A	N/A	100%	100%	Provision of aesthetic medical services

Notes:

- (1) The relevant stores were closed as at 31 December 2021.
- (2) The entity was disposed in December 2020.
- (3) The entity was disposed in March 2020.
- (4) The effective interest held was less than 70%, which is the level of equity interest permitted under the Foreign Ownership Restriction, thus no Contractual Arrangements were entered into for these entities.
- (5) The relevant stores were at the pre-opening stage.
- (6) The entities that provide medical services and hold Medical Institution Practicing License are the branch of the relevant entities.
- (7) The relevant store was closed while the Medical Institution Practicing License was not cancelled yet.
- (8) All companies comprising the Group have adopted 31 December as their financial year end date.

- (9) No statutory audited financial statements were issued for the years ended 31 December 2019, 2020 and 2021, and for the six months ended 30 June 2021 and 2022 for all companies now comprising the Group, as they were not required to issue audited financial statements under relevant rules and regulations in their jurisdiction of incorporation/establishment.
- (10) The entity was deregistered on 18 October 2022.
- (11) The entity was deregistered on 27 June 2022.

39 INVESTMENT IN A SUBSIDIARY – COMPANY

The Company

	As at 30 June 2022
	<i>RMB'000</i>
Deemed investment arising from share-based compensation expenses	12,798
Investment in subsidiaries	84,358
	<u>97,156</u>

40 CONTINGENCIES

As at 31 December 2019, 2020, 2021 and 30 June 2022, there were no significant contingencies for the Group and the Company.

41 DISPOSAL OF SUBSIDIARIES

(a) Disposal of Hainan Qiyan

In December 2020, the Group entered into an equity transfer agreement with Shanghai Qishi Commercial Management Partnership (Limited Partnership) (“Shanghai Qishi”) and Mr. Li, pursuant to which the Group transferred 99.999% equity interest in Hainan Qiyan Stem Cell Anti-aging Hospital Co., Ltd. (“Hainan Qiyan”) to Shanghai Qishi and 0.001% equity interests to Mr. Li. The consideration paid by Shanghai Qishi and Mr. Li was RMB19,999,800 and RMB200 respectively, the consideration was determined via arm’s length negotiation by reference to the valuation report prepared by an independent valuer. The consideration has been settled upon completion of the disposal, and the Group cease to hold any interest in Hainan Qiyan after then.

The cash outflow from disposal of Hainan Qiyan amounted to RMB20,265,000, equivalent to the cash consideration of RMB16,336,000 received in 2020 deducted by the cash and cash equivalent of RMB36,601,000 on the date of disposal.

(b) Disposal of Shanghai Luanmei

In April 2020, the Group entered into an equity transfer agreement with Shanghai Purkang Data Technology (Group) Co., Ltd. (“Shanghai Purkang”), Jin Xiaobo and Ye Rongrong, pursuant to which the Group transferred 100% equity interest in its then wholly-owned subsidiary Shanghai Luanmei E-Commerce Co., Ltd. (“Shanghai Luanmei”), to Shanghai Purkang, Jin Xiaobo and Ye Rongrong at the total consideration of RMB20,000,000.

The Group derecognise the assets and liabilities of Shanghai Luanmei from its consolidated balance sheets upon losing control. The consideration was determined based on arm’s length negotiation between the parties by reference to the net asset of Shanghai Luanmei at the time of the disposal.

On 16 March 2022, the Group completed the acquisition in the entire equity interest in Shanghai Luanmei with cash consideration of RMB2,000,000.

42 EVENTS AFTER THE BALANCE SHEET DATE

On 21 November 2022, 12 eligible employees were granted 3,092,784 share options of the Group at an exercise price of RMB24.25 per option. The share options will be vested 25% annually over 4 years, subject to certain performance conditions.

Dividend of RMB71,924,000 have been declared by the Company on 8 December 2022.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company or any of its subsidiaries now comprising the Group in respect of any period subsequent to 30 June 2022 and up to the date of this report.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix II does not form part of the Accountant’s Report from PricewaterhouseCoopers, Certified Public Accountants, the reporting accountant of our Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the sections headed “Financial Information” and “Appendix I — Accountant’s Report”.

The unaudited pro forma financial information should be read in conjunction with the section entitled “Financial Information” in this prospectus and the Accountant’s Report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2022 as if the Global Offering had taken place on 30 June 2022.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2022 or at any future dates following the Global Offering.

	Audited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2022	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2022	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>Note (1)</i> RMB'000	<i>Note (2)</i> RMB'000	RMB'000	<i>Note (3)</i> RMB	<i>Note (4)</i> HK\$
Based on an Offer Price of HK\$19.32 per Share	(59,242)	384,091	324,849	1.45	1.61

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2022 is extracted from the historical financial information contained in the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2022 of approximately RMB164,207,000, with an adjustment for the intangible assets and goodwill attributable to the owners of the Company as at 30 June 2022 of approximately RMB68,039,000 and RMB155,410,000, respectively.
- (2) The estimated net proceeds from the Global Offering are based on 24,395,500 new Shares, after deduction of the underwriting fees and other related expenses paid/payable by the Company and excluding listing expenses of RMB36,436,000 (equivalents to approximately HK\$40,578,225) which has been accounted for in the consolidated statements of comprehensive income up to 30 June 2022. It does not take account of any Shares which may be issued upon the exercise of the Over-Allotment Option, or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 224,395,500 Shares were in issue assuming that the Capitalization Issue and Global Offering had been completed on 30 June 2022 without taking into account of the (i) dividend of RMB71,924,000 declared on 8 December 2022; and (ii) 6,185,568 Shares to be granted after 30 June 2022 and vested over 4 years of service from date of grant pursuant to the Share Incentive Plan upon completion of Capitalization Issue; and any Shares which may be issued upon the exercise of the Over-Allotment Option, or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this prospectus. However, had such the (i) dividend of RMB71,924,000 declared on 8 December 2022; and (ii) 6,185,568 Shares been taken into account, such that 230,581,068 Shares are in issue immediately following the completion of the Global Offering, the unaudited pro forma adjusted net tangible assets per Share would have been RMB1.10 (equivalent to HK\$1.23). This does not take into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares that may be granted and issued or repurchased by the Company pursuant to the General Mandate.
- (4) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.8979 to HK\$1.00, as set out in "Information about this prospectus and the Global Offering" to this Prospectus. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) Saved as disclosed above, no adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2022.
- (6) As at 30 September 2022, the Group's property interest was valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the full text of the valuation report with regard to such property interest is set out in Appendix IV to this prospectus. The valuation surplus as at 30 September 2022, representing the excess of market value of the Group's property interest over its book value, was approximately RMB20,697,000 for the property. Such valuation surplus has not been included in the Group's consolidated financial statements as at 30 June 2022. The above adjustments do not take into account the valuation surplus. Had the property interest for the property been stated at such valuation, additional depreciation of RMB646,000 per annum would be charged against the consolidated statement of profit or loss.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Beauty Farm Medical and Health Industry Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Beauty Farm Medical and Health Industry Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2022, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 30 December 2022, in connection with the proposed initial public offering of the shares of the Company (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 June 2022 as if the proposed initial public offering had taken place at 30 June 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the period ended 30 June 2022, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*, ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 June 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 December 2022

SUMMARY OF THE CONSTITUTION OF THE COMPANY**1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on December 21, 2022 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed "Documents Delivered to the Registrar of Companies and Available on Display".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on December 21, 2022 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The authorized share capital of the Company at the date of adoption of the Articles is US\$50,000 divided into 10,000,000,000 shares of US\$0.000005 each.

2.2 *Directors***(a) *Power to allot and issue Shares***

Subject to the provisions of the Cayman Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The number of Directors shall not be less than two.

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director).

The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after this appointment and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors who are to retire by rotation at such meeting.

No person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors. The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by a notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 *Alteration of capital*

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares ratably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled subject to the provisions of the Cayman Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Companies Act.

2.6 Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution signed by all members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly appointed representatives), and any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last member to sign.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any meeting of the Company (including general meeting and creditors meeting of the Company) or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

All members for the time being entitled to receive notice of and to attend and vote at general meetings (or, in the case of a member being a corporation, its duly authorised representative), shall have the right to speak at any general meetings of the Company.

2.8 *Annual general meetings and extraordinary general meetings*

The Company must hold a general meeting as its annual general meeting each financial year. Such meeting must be held within six months after the end of the Company's financial year. The annual general meeting shall be specified as such in the notices calling it.

Extraordinary general meetings may be convened on the requisition of one or more shareholders (or any one member which is a recognized clearing house (or its nominee(s)) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings.

2.9 *Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Act or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a statement of financial position as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The appointment, removal and remuneration of an auditor or auditors of the Company shall require the approval of an ordinary resolution of the members in general meeting. The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting and fix the remuneration of such auditor(s) being appointed. The removal of any auditor before the expiration of his period of office shall be approved at a general meeting; and the members shall at that meeting appoint new auditor in its place for the remainder of the term.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may, in its absolute discretion, and without assigning any reason, refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase. The holder of the shares being purchased shall be bound to deliver up to the Company at its principal place of business in Hong Kong or such other place as the Directors shall specify the certificate(s) thereof, if any, for cancellation and thereupon the Company shall pay to him the purchase or redemption monies in respect thereof.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Cayman Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend may be paid or declared, the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

Subject to the Companies Act, the Company may by special resolution resolve that the Company be wound up voluntarily.

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 *Untraceable members*

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**1 Introduction**

The Cayman Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 February 2022 under the Cayman Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3 Share Capital

The Cayman Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Cayman Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Cayman Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Cayman Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Cayman Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Cayman Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Cayman Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by (i) a majority in number representing 75% in value of creditors or (ii) 75% in value of shareholders or class of shareholders, as the case may be, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Act (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 (“ES Law”) that came into force on 1 January 2019, a “relevant entity” is required to satisfy the economic substance test set out in the ES Law. A “relevant entity” includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, if an exempted company incorporated in the Cayman Islands is tax resident outside the Cayman Islands, it will not be required to satisfy the economic substance test set out in the ES Law.

22 General

Campbells, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Act, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 September 2022 of the selected property interest held by the Group.



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

30 December 2022

The Board of Directors
Beauty Farm Medical and Health Industry Inc.
Unit 1206, 12th Floor
No.1089 Dongdaming Road
Hongkou District
Shanghai
PRC

Dear Sirs,

In accordance with your instructions to value the selected property interest held by Beauty Farm Medical and Health Industry Inc. (the "Company") and its subsidiaries (hereinafter together referred to as the "Group"), in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at 30 September 2022 (the "valuation date").

The selected property interest forms part of property activities and has a carrying amount of 1% or more of the Group's total assets, therefore the valuation report of the property interest is required to be included in this Prospectus.

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the completed portion of the property by the income approach by taking into account the rental income of such portion of the property derived from the existing lease and/or achievable in the existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the market value at an appropriate capitalization rate. Where appropriate, reference has also been made to the comparable sales transactions as available in the relevant market. For portion of the land of the property that have not been developed, we

have adopted the comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards issued by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Real Estate Title Certificates and other official plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the PRC legal opinions issued by Grandall Law Firm (Shanghai) and Tian Yuan Law Firm, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in February 2022 by Mr. Jason Chen, a China Certified Public Valuer who has more than 3 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world. As of the report date, China's economy is experiencing gradual recovery and it is anticipated that disruption to business activities will steadily reduce. We also note that market activity and market sentiment in this particular market sector remain stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of the property under frequent review.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 28 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date
			<i>RMB</i>
A parcel of land and two buildings located at the northern side of Wanbo Street and the western side of Kangxiang Road Zhongyuan Town Qionghai City Hainan Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 20,289.00 sq.m., and two medical and ancillary buildings erected thereon with a total gross floor area of approximately 5,380.48 sq.m. The property is located at the northern side of Wanbo Street and the western side of Kangxiang Road. It is about 10 minutes' driving distance to the Bo'ao Railway Station. The locality is a well-developed medical tourism zone with mature and sophisticated infrastructural facilities.</p> <p>The buildings were completed in 2019. As advised by the Group, portion of the land parcel of the property at the north-western part of the site with a site area of approximately 3,125.00 sq.m. was a vacant bare land that had not been developed as at the valuation date.</p> <p>The land use rights of the property have been granted for a term expiring on 5 April 2066 for medical hygiene charity use.</p>	As at the valuation date, the buildings of the property were rented to a tenant and portion of the property was a vacant bare land to be developed.	92,690,000

Notes:

- (1) Pursuant to a State-owned Land Use Rights Certificate – Qionghai Guo Yong (2016) Di No. 000193, the land use rights of the property with a site area of approximately 20,289.00 sq.m. have been granted to Hainan Meirui International Medical and Health Industry Co., Ltd. (海南美瑞國際醫療健康產業有限公司, “Hainan Meirui”, a wholly-owned subsidiary of the Company) for a term of 50 years expiring on 5 April 2066 for medical hygiene charity use.
- (2) Pursuant to 2 Real Estate Title Certificates – Qiong (2020) Qionghai Shi Bu Dong Chan Quan Di Nos.0022504 and 0022505, the buildings of the property with a total gross floor area of approximately 5,380.48 sq.m. are owned by Hainan Meirui for medical and dormitory uses.
- (3) Pursuant to a Tenancy Agreement, the buildings of the property were leased to Hainan Qiyang Stem Cell Anti-aging Hospital Co., Ltd. (海南啟研幹細胞抗衰老醫院有限公司, “Hainan Qiyang”, a connected party of the Company) with the expiry date on 31 December 2024, and the monthly rent receivable as at the valuation date was RMB99.13 per sq.m., exclusive of management fees, water and electricity charges.
- (4) In our valuation, we have identified and analysed various relevant sales and lease evidence which have similar characteristic as the subject property. The daily unit rent of these rental comparable buildings range from RMB2.97 to RMB3.20 per sq.m.. For the valuation of the bare land portion, the unit price of these comparable land sites ranges from RMB1,700 to RMB2,000 per sq.m. on site area basis for medical charity uses. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at the assumed unit rate.
- (5) We have been provided with the legal opinion containing the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
- Hainan Meirui is in possession of the land use rights and building ownership rights of the property.
- (6) A summary of major certificates/approvals is shown as follows:
- | | | |
|----|---|-----|
| a. | State-owned Land Use Rights Certificate | Yes |
| b. | Real Estate Title Certificate | Yes |

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

Our Company was incorporated in the Cayman Islands on February 10, 2022 under the Companies Act as an exempted company with limited liability. Accordingly, our corporate structure and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of certain aspects of the Cayman Islands company law and a summary of certain provisions of our Articles of Association are set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus.

Our principal place of business in Hong Kong is at Rm 1901, 19/F Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. We were registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on May 11, 2022. Mr. LI Yang (李陽) and Ms. KWOK Siu Ying Sarah (郭兆瑩) have been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company was authorized to issue 5,000,000,000 Shares of 0.00001 each. Upon its incorporation, 62,260,000 Shares were issued to our then Shareholders. On March 11, 2022, 500,000 Shares were issued to our then Shareholders and 200,000 Shares were issued to ZYLot Holdings Limited, our Pre-IPO Investor. On April 21, 2022, a further 37,040,000 preferred shares were issued to Beijing Xinyu Meiye Holdings Limited, our Pre-IPO Investor.

Assuming the Over-allotment Option is not exercised, upon completion of the Share Split and the Global Offering, our Company will be authorized to issued 10,000,000,000 Shares of 0.000005 each and our issued share capital will increase to 230,581,068 Shares.

Save as disclosed in the section headed “History, Reorganization and Corporate Structure” in this prospectus, there has been no other alteration in our share capital within two years immediately preceding the date of this prospectus.

3. Changes in the Share Capital of Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 38 to the Accountant’s Report as set out in Appendix I to this prospectus. Save as disclosed below, there has been no alteration in the share capital of our subsidiaries within two years immediately preceding the date of this prospectus.

Shanghai Beauty Farm

Shanghai Beauty Farm was incorporated on April 23, 2004 with an initial registered capital of RMB4 million. On November 17, 2017, the registered capital was increased to RMB4,707,257. On December 15, 2021, the registered capital was increased to RMB100,000,000. On February 23, 2022, the registered capital was further increased to RMB102,040,816.

Chengdu Gaoxin Xiuke'er Medical Beauty Clinic Co., Ltd. (成都高新秀可兒醫療美容診所有限公司)

Chengdu Gaoxin Xiuke'er Medical Beauty Clinic Co., Ltd. was incorporated on July 27, 2020 with an initial registered capital of RMB500,000. On February 17, 2022, its registered capital was increased to RMB555,600. On February 28, 2022, its registered capital was further increased to RMB580,000. On April 13, 2022, its registered capital was increased to RMB745,714.29.

Hefei Beauty Farm Beauty Service Co., Ltd. (合肥美麗園田美容服務有限公司)

Hefei Beauty Farm Beauty Service Co., Ltd. was incorporated on October 23, 2018 with an initial registered capital of RMB3 million. On August 9, 2021, its registered capital was increased from RMB3 million to RMB4.20 million.

Shanghai Shengqian Business Management Partnership (Limited Partnership) (上海盛芊商業管理合夥企業(有限合夥)) ("Shanghai Shengqian")

Shanghai Shengqian was incorporated on May 25, 2021 with an initial registered capital of RMB150,000. On August 15, 2021, its registered capital was increased from RMB150,000 to RMB166,700.

Wuhan Qiyang General Outpatient Department Co., Ltd. (武漢啟研綜合門診部有限公司)

Wuhan Qiyang General Outpatient Department Co., Ltd. was incorporated on May 10, 2019 with an initial registered capital of RMB20 million. On December 30, 2021, its registered capital was increased from RMB20 million to RMB21,052,632.

Xian Beauty Farm Beauty Service Co., Ltd. (西安美麗園田美容服務有限公司)

Xian Beauty Farm Beauty Service Co., Ltd. was incorporated on February 24, 2012 with an initial registered capital of RMB1.50 million. On September 29, 2021, its registered capital was increased from RMB1.50 million to RMB1.67 million.

Tianjin Beauty Farm Enterprise Management Co., Ltd. (天津美麗田園企業管理服務有限公司)

Tianjin Beauty Farm Enterprise Management Co., Ltd. was incorporated on June 19, 2012 with a registered share capital of RMB2 million. On October 28, 2021, its registered capital was increased to RMB3,636,364.

Shanghai Shengyihan Business Management Partnership (Limited Partnership) (上海盛亦函商業管理合夥企業(有限合夥))

Shanghai Shengyihan Business Management Partnership (Limited Partnership) was incorporated on May 14, 2021 with a registered share capital of RMB400,000. On February 23, 2022, its registered capital was increased to RMB484,100.

Haikou Yanyuan Clinic Co., Ltd. (海口研源診所有限公司)

Haikou Yanyuan Clinic Co., Ltd. was incorporated on April 30, 2022 with a registered share capital of RMB1.2 million.

Hefei Xiukeer Medical Beauty Clinic Co., Ltd. (合肥秀可兒醫療美容診所有限公司)

Hefei Xiukeer Medical Beauty Clinic Co., Ltd. was incorporated on June 15, 2022 with a registered share capital of RMB1 million.

Wuhan Yijiangpan Beauty Co., Ltd. (武漢依江畔美容有限公司)

Wuhan Yijiangpan Beauty Co., Ltd. was incorporated on November 1, 2013 with a registered share capital of RMB700,000. On September 30, 2022, its registered capital was increased to RMB777,778.

Xi'an Beilin Xiukeer General Outpatient Department Co., Ltd. (西安碑林秀可兒綜合門診部有限公司) (“Xi'an Xiukeer”)

Xi'an Xiukeer was incorporated on February 25, 2022 with a registered share capital of RMB9.8 million.

4. Resolutions of the Shareholders of the Company Passed on December 21, 2022

Pursuant to the written resolutions of our Shareholders dated December 21, 2022, it was resolved, among others:

- (a) the Articles of Association were approved and adopted, and will come into effect upon Listing;
- (b) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned

in this prospectus; (2) the execution and delivery of the International Underwriting Agreement on or about January 6, 2023; and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Sponsors, the Overall Coordinators and/or the Joint Global Coordinators) and each of the Underwriting Agreements not being terminated in accordance with their terms or otherwise and conditional and immediately upon the re-designation, re-classification and conversion of the preferred Shares before the Listing:

- (i) the Global Offering was approved and our Directors were authorized to effect the same and to allot and issue the Offer Shares pursuant to the Global Offering;
 - (ii) the grant of the Over-allotment Option by the Company to the International Underwriters to allot and issue up to 15% of the Offer Shares initially available under the Global Offering to cover, among other things, the over-allocations in the International Offering was approved;
 - (iii) the proposed Listing was approved and our Directors were authorized to implement such Listing; and
 - (iv) the subdivision of each authorised issued and unissued share of a par value of US\$0.00001 each in the Company be subdivided into 2 shares of a par value of US\$0.000005 each was approved.
- (c) a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders or upon the exercise of the Over-allotment Option. This general mandate to issue Shares will remain in effect until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under the applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting of our Company,

whichever is the earliest;

- (d) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding Shares which may be allotted and issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. This general mandate to repurchase Shares will remain in effect until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting of our Company;

whichever is the earliest; and

- (e) the general unconditional mandate as mentioned in paragraph (c) above would be extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option).

5. Restrictions on Repurchase

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own Shares.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own Shares on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders' Approval

All proposed repurchase of Shares (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the constitutive documents of a listed company, the laws of the jurisdiction in which the listed company is incorporated or otherwise established. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Subject to the foregoing, any repurchases by a listed company may be made out of the funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our share premium account.

(b) Reasons for Repurchase

Our Directors believe that it is in the best interest of us and our Shareholders for our Directors to have general authority from the Shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

(c) *Funding of Repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum of Association and Articles of Association, the Companies Act or other applicable laws of Cayman Islands and the Listing Rules.

(d) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to us or our subsidiaries.

If, as a result of a repurchase of our Shares, a Shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Hong Kong Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person, as defined in the Listing Rules, has notified us that he/she or it has a present intention to sell his/her or its Shares to us, or has undertaken not to do so, if a repurchase of our Shares is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an exclusive operation services agreement dated April 13, 2022 and entered into among Mr. Li, Shanghai Beauty Farm, Shanghai Liernuo, Shanghai Xiukeer Clinic Co., Ltd.* (上海秀可兒門診部有限公司), Ningbo Jiangbei Yongjiang Xiukeer Medical Beauty Clinic Co., Ltd.* (寧波江北甬江秀可兒醫療美容診所有限公司), Nanjing Xiukeer Medical Beauty Clinic Co., Ltd.* (南京秀可兒醫療美容診所有限公司), Shenzhen Xiukeer General Outpatient Department* (深圳秀可兒綜合門診部), Hangzhou Liyan Medical Beauty Clinic Co., Ltd.* (杭州麗研醫療美容診所有限公司), Zhengzhou Liyan Medical Beauty Service Co., Ltd.* (鄭州麗研醫療美容

服務有限公司), Haikou Meilan Meishuyue Medical Beauty Clinic Co., Ltd.* (海口美蘭美束悅醫療美容門診部有限公司), Beijing Hexin Medical Beauty Clinic Co., Ltd.* (北京禾欣醫療美容門診部有限公司), Beijing Yanyuan Clinic Co., Ltd.* (北京研源診所有限公司), Chengdu Gaoxin Xiukeer Medical Beauty Clinic Co., Ltd.* (成都高新秀可兒醫療美容診所有限公司), Chongqing Xiukeer General Outpatient Department Co., Ltd.* (重慶秀可兒綜合門診部有限公司), Xi'an Meiju Medical Technology Development Co., Ltd.* (西安美聚醫療科技發展有限公司), Wuhan Qiyang General Outpatient Department Co., Ltd.* (武漢啟研綜合門診部有限公司), Beijing Meishu Laser Medical Clinic Co., Ltd.* (北京美束激光醫療診所有限公司), Changchun Meiju Medical Technology Development Co., Ltd.* (長春美聚醫療科技發展有限公司), Qingdao Aimei Medical Beauty Co., Ltd.* (青島艾美醫療美容有限公司), Haikou Xiukeer Medical Beauty Clinic Co., Ltd.* (海口秀可兒醫療美容門診部有限公司), and Xi'an Beilin Xiukeer General Outpatient Department Co., Ltd.* (西安碑林秀可兒綜合門診部有限公司) (formerly known as Xi'an Xiukeer General Outpatient Department Co., Ltd.* (西安秀可兒綜合門診部有限公司)) (the preceding 18 entities, the “**18 Restricted Medical Institutions**”) pursuant to which, among others, Shanghai Beauty Farm is engaged as an exclusive operational service consultant and service provider;

- (b) an exclusive purchase option agreement dated April 13, 2022 and entered into among Mr. Li, Shanghai Beauty Farm and Shanghai Liernuo pursuant to which, among others, Mr. Li irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or part of his equity interest in Shanghai Liernuo and Shanghai Liernuo irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or parts of Shanghai Liernuo's assets, each at the minimum purchase price permitted under PRC law;
- (c) an exclusive purchase option agreement dated April 13, 2022 and entered into among Shanghai Beauty Farm, Shanghai Liernuo and the 18 Restricted Medical Institutions pursuant to which, among others, Shanghai Liernuo irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or part of its equity interests in the 18 Restricted Medical Institutions owned by Shanghai Liernuo and the 18 Restricted Medical Institutions irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or parts of their assets, each at the minimum purchase price permitted under PRC law;

- (d) a shareholders' rights entrustment agreement dated April 13, 2022 and entered into among Mr. Li, Shanghai Beauty Farm and Shanghai Liernuo pursuant to which, among others, Mr. Li irrevocably authorized and entrusted Shanghai Beauty Farm (and its successors and liquidators) or its designated natural person to exercise all his rights and powers as the shareholder of Shanghai Liernuo;
- (e) a shareholders' rights entrustment agreement dated April 13, 2022 and entered into among Shanghai Beauty Farm, Shanghai Liernuo and the 18 Restricted Medical Institutions pursuant to which, among others, Shanghai Liernuo irrevocably authorized and entrusted Shanghai Beauty Farm (and its successors and liquidators) or its designated natural person to exercise all its rights and powers as the shareholder of the 18 Restricted Medical Institutions;
- (f) an equity pledge agreement dated April 13, 2022 and entered into among Mr. Li, Shanghai Beauty Farm and Shanghai Liernuo pursuant to which, among others, Mr. Li unconditionally and irrevocably agreed to pledge and grant first priority security interests over all of his equity interest and rights in Shanghai Liernuo to Shanghai Beauty Farm;
- (g) an equity pledge agreement dated April 13, 2022 and entered into among Shanghai Beauty Farm, Shanghai Liernuo and the 18 Restricted Medical Institutions pursuant to which, among others, Shanghai Liernuo unconditionally and irrevocably agreed to pledge and grant first priority security interests over all of its equity interest and rights in the 18 Restricted Medical Institutions to Shanghai Beauty Farm;
- (h) an exclusive operation services agreement dated November 4, 2022 and entered into among Mr. Li, Shanghai Beauty Farm, Shanghai Liernuo, Haikou Yanyuan Clinic Co., Ltd.* (海口研源診所有限公司) ("**Haikou Yanyuan**") and Hefei Xiukeer Medical Beauty Clinic Co., Ltd.* (合肥秀可兒醫療美容診所有限公司) ("**Hefei Xiukeer**"), pursuant to which, among others, Shanghai Beauty Farm is engaged as an exclusive operational service consultant and service provider;
- (i) an exclusive purchase option agreement dated November 4, 2022 and entered into among Mr. Li, Shanghai Beauty Farm and Shanghai Liernuo pursuant to which, among others, Mr. Li irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or part of his equity interest in Shanghai Liernuo and Shanghai Liernuo irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or parts of Shanghai Liernuo's assets, as defined as its equity interest in Haikou Yanyuan and Hefei Xiukeer, each at the minimum purchase price permitted under PRC law;

- (j) an exclusive purchase option agreement dated November 4, 2022 and entered into among Shanghai Beauty Farm, Shanghai Liernuo, Haikou Yanyuan and Hefei Xiukeer, pursuant to which, among others, Shanghai Liernuo irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or part of its equity interests in Haikou Yanyuan and Hefei Xiukeer owned by Shanghai Liernuo and each of Haikou Yanyuan and Hefei Xiukeer irrevocably and unconditionally granted Shanghai Beauty Farm and its designated person an exclusive option to purchase all or parts of their assets, each at the minimum purchase price permitted under PRC law;
- (k) a shareholders' rights entrustment agreement dated November 4, 2022 and entered into among Mr. Li, Shanghai Beauty Farm and Shanghai Liernuo pursuant to which, among others, Mr. Li irrevocably authorized and entrusted Shanghai Beauty Farm (and its successors and liquidators) or its designated natural person to exercise all his rights and powers as the shareholder of Shanghai Liernuo, with reference to Shanghai Liernuo's equity interest in Haikou Yanyuan and Hefei Xiukeer;
- (l) a shareholders' rights entrustment agreement dated November 4, 2022 and entered into among Shanghai Beauty Farm, Shanghai Liernuo, Haikou Yanyuan and Hefei Xiukeer, pursuant to which, among others, Shanghai Liernuo irrevocably authorized and entrusted Shanghai Beauty Farm (and its successors and liquidators) or its designated natural person to exercise all its rights and powers as the shareholder of Haikou Yanyuan and Hefei Xiukeer;
- (m) an equity pledge agreement dated November 4, 2022 and entered into among Mr. Li, Shanghai Beauty Farm and Shanghai Liernuo pursuant to which, among others, Mr. Li unconditionally and irrevocably agreed to pledge and grant first priority security interests over all of his equity interest and rights in Shanghai Liernuo to Shanghai Beauty Farm, with reference to Shanghai Liernuo's equity interest in Haikou Yanyuan and Hefei Xiukeer;
- (n) an equity pledge agreement dated November 4, 2022 and entered into among Shanghai Beauty Farm, Shanghai Liernuo, Haikou Yanyuan and Hefei Xiukeer pursuant to which, among others, Shanghai Liernuo unconditionally and irrevocably agreed to pledge and grant first priority security interests over all of its equity interest and rights in Haikou Yanyuan and Hefei Xiukeer to Shanghai Beauty Farm;

- (o) a cornerstone investment agreement dated December 28, 2022 entered into among our Company, TruMed Healthcare Master Fund, TruMed Health Innovation Fund LP, Morgan Stanley Asia Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited pursuant to which TruMed Healthcare Master Fund and TruMed Health Innovation Fund LP agreed to subscribe for Shares at the Offer Price in the aggregate amount of US\$16,880,000, details of which are included in the section headed “Cornerstone Investors” in this prospectus;
- (p) a cornerstone investment agreement dated December 28, 2022 entered into among our Company, Kunming Botanee Bio-technology Sales Co., Ltd. (昆明貝泰妮生物科技銷售有限公司), Morgan Stanley Asia Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited pursuant to which Kunming Botanee Bio-technology Sales Co., Ltd. (昆明貝泰妮生物科技銷售有限公司) agreed to subscribe for Shares at the Offer Price in the aggregate amount of US\$7,000,000, details of which are included in the section headed “Cornerstone Investors” in this prospectus;
- (q) a cornerstone investment agreement dated December 28, 2022 entered into among our Company, Juzi Holding Co., Ltd, Morgan Stanley Asia Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited pursuant to which Juzi Holding Co., Ltd agreed to subscribe for Shares at the Offer Price in the aggregate amount of US\$10,000,000, details of which are included in the section headed “Cornerstone Investors” in this prospectus;
- (r) a cornerstone investment agreement dated December 28, 2022 entered into among our Company, Harvest International Premium Value (Secondary Market) Fund SPC acting on behalf of and for the account of Harvest Great Bay Investment SP, Beijing Xinyu Meiye Holdings Limited, Morgan Stanley Asia Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited pursuant to which Harvest International Premium Value (Secondary Market) Fund SPC acting on behalf of and for the account of Harvest Great Bay Investment SP agreed to subscribe for Shares at the Offer Price in the aggregate amount of US\$20,000,000, details of which are included in the section headed “Cornerstone Investors” in this prospectus; and
- (s) the Hong Kong Underwriting Agreement.

* For identification purposes only

2. Our Material Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of registration	Name of registered proprietor	Registration number	Class	Expiry date
1		PRC	Shanghai Beauty Farm	15291769	44	December 20, 2025
2	CellCare	PRC	Shanghai Beauty Farm	12635745	44	October 13, 2024
3	研源	PRC	Shanghai Beauty Farm	52503753	44	August 27, 2031
4	秀可儿	PRC	Shanghai Beauty Farm	33003639	44	August 20, 2030
5		PRC	Shanghai Beauty Farm	29152938	44	December 27, 2028
6	Neology	PRC	Shanghai Beauty Farm	34886045	44	July 13, 2030
7	贝黎诗	PRC	Beijing PALAISPA	4528670	44	September 20, 2028
8	PALAISPA	PRC	Beijing PALAISPA	4528671	44	September 20, 2028
9	研源	PRC	Shanghai Beauty Farm	52475693	5	May 6, 2032
10	丹妮嘉	PRC	Shanghai Beauty Farm	59950232	3	June 13, 2032
11		PRC	Shanghai Beauty Farm	61809196	3	July 6, 2032

No.	Trademark	Place of registration	Name of registered proprietor	Registration number	Class	Expiry date
12		PRC	Shanghai Beauty Farm	61806144	5	July 6, 2032
13		PRC	Shanghai Beauty Farm	61803255	10	July 6, 2032
14		PRC	Shanghai Beauty Farm	12166493	3	November 13, 2025
15		PRC	Shanghai Beauty Farm	15290551	24	October 6, 2026

(b) Patents

As of the Latest Practicable Date, we have registered the following patents, which we consider to be material to the business of our Group:

No.	Patent	Category	Patentee(s)	Patent Number	Place of Registration	Date of Application	Current Status
1	Repair cream packaging bottle (修護霜包裝瓶)	Exterior design	Shanghai Beauty Farm	ZL201630479758.8	PRC	September 23, 2016	Granted
2	Essence lotion packaging bottle (精華露包裝瓶)	Exterior design	Shanghai Beauty Farm	ZL201630479757.3	PRC	September 23, 2016	Granted
3	Cellaphile packaging box (Cellaphile 包裝盒)	Exterior design	Shanghai Beauty Farm	ZL201730678656.3	PRC	December 28, 2017	Granted
4	CELLAPHILE solution inner packaging bottle (CELLAPHILE 原液內包裝瓶)	Exterior design	Shanghai Beauty Farm	ZL201630539506.X	PRC	November 7, 2016	Granted
5	CELLAPHILE solution outer packaging box (CELLAPHILE 原液外包裝盒)	Exterior design	Shanghai Beauty Farm	ZL201630539454.6	PRC	November 7, 2016	Granted
6	Needle roller with dense needle point arrangement (密集針尖排列的滾針)	Utility model	Shanghai Xiukeer Clinic Co., Ltd. (上海秀可兒門診部有限公司, "Shanghai Xiukeer")	ZL202220461807.5	PRC	March 4, 2022	Granted
7	Fixed-free incision protector for liposuction (用於抽脂的免固定切口保護器)	Utility model	Shanghai Xiukeer	ZL202220894768.8	PRC	April 18, 2022	Granted
8	Silent liposuction device (用於吸脂手術的無聲吸脂設備)	Utility model	Shanghai Xiukeer	ZL202220894767.3	PRC	April 18, 2022	Granted

(c) Copyrights

As of the Latest Practicable Date, we have registered the following software copyrights which are material to our business:

No.	Title of software copyright	Registered owner	Registration number	Place of registration	Registration date
1	融麟美麗田園醫療門診管理系統應用軟件	Shanghai Ronglin Information Technology Co., Ltd. (上海融麟信息科技有限公司) ("Shanghai Ronglin")	2018SR663818	PRC	August 20, 2018
2	融麟美麗田園報表平台應用軟件	Shanghai Ronglin	2018SR841560	PRC	October 22, 2018
3	融麟美麗田園業務流程管理平台應用軟件	Shanghai Ronglin	2018SR849362	PRC	October 24, 2018
4	融麟美麗田園線上支付對賬系統應用軟件	Shanghai Ronglin	2018SR665359	PRC	August 21, 2018
5	融麟美麗田園SPA服務管家系統應用軟件	Shanghai Ronglin	2018SR665343	PRC	August 21, 2018
6	美麗通供應鏈管理系統	Shanghai Ronglin	2015SR252837	PRC	December 10, 2015
7	融麟美麗田園客戶賬戶管理系統應用軟件	Shanghai Ronglin	2017SR606148	PRC	November 6, 2017
8	融麟美麗田園業務流程管理平台軟件	Shanghai Ronglin	2017SR606143	PRC	November 6, 2017
9	融麟訂貨管理軟件	Shanghai Ronglin	2014SR173832	PRC	November 17, 2014
10	融麟短信中間件軟件	Shanghai Ronglin	2015SR249478	PRC	December 8, 2015
11	融麟郵件中間件軟件	Shanghai Ronglin	2015SR255463	PRC	December 11, 2015
12	美麗通財務接口系統	Shanghai Ronglin	2015SR251688	PRC	December 9, 2015
13	融麟報表管理平台軟件	Shanghai Ronglin	2014SR173747	PRC	November 17, 2014

No.	Title of software copyright	Registered owner	Registration number	Place of registration	Registration date
14	融麟美麗田園SPA服務管家系統應用軟件	Shanghai Ronglin	2019SR0382483	PRC	April 24, 2019
15	融麟美麗田園報表平台應用軟件	Shanghai Ronglin	2019SR0402362	PRC	April 26, 2019
16	融麟美麗田園加盟商管理系統應用軟件	Shanghai Ronglin	2019SR0387329	PRC	April 24, 2019
17	融麟美麗健康管家平台應用軟件	Shanghai Ronglin	2019SR0383017	PRC	April 24, 2019
18	融麟美麗健康管家軟件	Shanghai Ronglin	2020SR0004353	PRC	January 2, 2020
19	融麟美麗田園訂單管理系統應用軟件	Shanghai Ronglin	2020SR0004285	PRC	January 2, 2020
20	融麟美麗田園會員社交電商平台軟件	Shanghai Ronglin	2020SR0001931	PRC	January 2, 2020
21	融麟美麗田園醫療門診管理PMS二期系統應用軟件	Shanghai Ronglin	2020SR0000999	PRC	January 2, 2020
22	融麟美麗田園預付卡系統應用軟件	Shanghai Ronglin	2020SR0007003	PRC	January 2, 2020
23	融麟美麗田園SPA服務管家系統應用軟件	Shanghai Ronglin	2020SR0583985	PRC	June 8, 2020
24	融麟抗衰營養素管理系統應用軟件	Shanghai Ronglin	2020SR0582497	PRC	June 8, 2020
25	融麟抗衰問卷調查系統應用軟件	Shanghai Ronglin	2020SR0584993	PRC	June 8, 2020
26	融麟美麗田園會員中心小程序應用軟件	Shanghai Ronglin	2020SR0578727	PRC	June 5, 2020
27	融麟美麗田園報表平台應用軟件	Shanghai Ronglin	2020SR0578735	PRC	June 5, 2020
28	融麟美麗田園在線小程序應用軟件	Shanghai Ronglin	2021SR0736065	PRC	May 21, 2021

No.	Title of software copyright	Registered owner	Registration number	Place of registration	Registration date
29	融麟美麗田園訂單管理系統應用軟件(OMS訂單關聯系統)	Shanghai Ronglin	2021SR0731106	PRC	May 20, 2021
30	融麟美麗田園SPA服務管家系統應用軟件	Shanghai Ronglin	2021SR0731923	PRC	May 20, 2021
31	融麟美麗田園數據決策系統應用軟件	Shanghai Ronglin	2021SR0737706	PRC	May 21, 2021
32	融麟美麗田園PMS醫療門診管理系統應用軟件	Shanghai Ronglin	2021SR0731118	PRC	May 20, 2021
33	融麟美麗田園PMS醫療門診管理系統應用軟件	Shanghai Ronglin	2022SR1121423	PRC	August 15, 2022
34	融麟美麗田園數據決策系統應用軟件	Shanghai Ronglin	2022SR1121514	PRC	August 15, 2022
35	融麟美麗田園在線小程序應用軟件	Shanghai Ronglin	2022SR1121422	PRC	August 15, 2022
36	融麟美麗田園生活美容全新店務運營管理系統應用軟件	Shanghai Ronglin	2022SR1052011	PRC	August 9, 2022
37	融麟美麗田園雙美協同客戶服務系統應用軟件	Shanghai Ronglin	2022SR1121368	PRC	August 15, 2022
38	N字設計圖	Shanghai Beauty Farm	國作登字 -2018-F-00510046	PRC	March 30, 2018
39	花朵設計圖	Shanghai Beauty Farm	國作登字 -2020-F-00994453	PRC	March 20, 2020
40	微改變大不同設計圖	Shanghai Beauty Farm	國作登字 -2021-F-00119418	PRC	May 31, 2021
41	TIME•SO	Shanghai Beauty Farm	國作登字 -2021-F-00224425	PRC	September 27, 2021

(d) Domain Names

As of the Latest Practicable Date, we owned the following domain names which we consider to be material to be or may be material to our business:

<u>No.</u>	<u>Domain name</u>	<u>Registrant</u>	<u>Date of registration</u>	<u>Expiry date</u>
1	beautyfarm.com.cn	Shanghai Beauty Farm Cosmetics Development Co., Ltd. (上海美麗田園美容 發展有限公司)	April 30, 2002	April 30, 2031

Save as the above, as of the Latest Practicable Date, there were no other trade or service marks, patents, copyrights, domain names and other intellectual or industrial property rights which were material in relation to our business.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of our Company and our associated corporations*

The following table sets out the interests and short positions of our Directors and chief executive of our Company immediately following completion of the Global Offering (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once our Shares are listed:

Name of Director/ Chief Executive	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding in the issued share capital of our Company as of the date of this prospectus	Approximate percentage of shareholding in the total share capital of our Company upon completion of the Global Offering (assuming no exercise of the Over-allotment Option)
Mr. Li	Interest in controlled corporation	1,000,000	0.97%	0.87%
	Adviser of a trust	17,780,000	17.25%	15.42%
	Interest jointly held with another person	38,710,000	37.55%	33.58%
Ms. Li	Adviser of a trust	21,200,000	20.56%	18.39%
	Interest jointly held with another person	36,290,000	35.20%	31.48%
Mr. Lian	Adviser of a trust	17,510,000	16.98%	15.19%
	Interest jointly held with another person	39,980,000	38.78%	34.68%

(b) Interests of the substantial shareholders in the Shares

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, our Directors are not aware of any other person (not being a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

(c) Interests of the substantial shareholders of other members of our Group

Immediately following completion of the Global Offering, based on the information available on the Latest Practicable Date and save as disclosed elsewhere in this prospectus, the following persons/entities (other than our Directors and chief executive of our Company) will directly or indirectly, be interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Relevant member of our Group	Percentage of shareholding interest in the relevant member of our Group ⁽¹⁾
Song Jian (宋健) ⁽²⁾	Beijing Limei Farm Beauty Co., Ltd. (北京麗美田園美容有限公司) (“Beijing Limei”)	12.5%
Gu Junyuan (顧峻源) ⁽³⁾	Beijing Limei	12.5%
Song Jian (宋健) ⁽²⁾	Beijing Limei Farm Enterprise Management Co., Ltd. (北京麗美田園企業管理有限公司)	25.0%
Zhang Xiaoda (張效達) ⁽⁴⁾	Changchun Zhuoyan Beauty Service Co., Ltd. (長春卓妍美容服務有限公司) (“Changchun Zhuoyan”)	25.0%
Qu Yanhong (瞿雁鴻) ⁽⁵⁾	Changsha Yuhua Xiuke'er Medical Beauty Clinic Co., Ltd. 長沙雨花區秀可兒醫療美容診所有限公司	40.0%
Hefei Meiyuan Beauty Consulting Co., Ltd. (合肥市美研美容 諮詢有限公司)	Hefei Beauty Farm Beauty Service Co., Ltd. (合肥美麗園田美容服務有限公司)	35.0%

Name	Relevant member of our Group	Percentage of shareholding interest in the relevant member of our Group ⁽¹⁾
Hu Caixiu (胡彩秀) ⁽⁶⁾	Nanning Xiukeer Medical Beauty Clinic Co., Ltd. (南寧秀可兒醫療美容診所有限公司)	40.0%
Sanya Summer Department Store Co., Ltd. (三亞夏日百貨 有限公司)	Sanya Beauty Farm Beauty Service Co., Ltd. (三亞美麗田園美容服務有限公司)	49.0%
Wang Zhaohui (汪兆惠) ⁽⁷⁾	Shanxi Lixing Tianxia Beauty Co., Ltd. 山西麗行天下美容有限公司 (“ Shanxi Lixing ”)	49.0%
Wang Zhaohui (汪兆惠)	Taiyuan Xiaodian Yanpan Medical Beauty Clinic Co., Ltd. (太原市小店區妍潘醫療美容診所有限公司) (“ Taiyuan Xiaodian ”)	10.0%
Wang Yizhe (王一哲) ⁽⁸⁾	Taiyuan Xiaodian	30.0%
Wuhan Xinyuyuan Culture Communication Co., Ltd. (武漢馨玉園文化 傳播有限公司) ⁽⁹⁾	Wuhan Handerui Beauty Co., Ltd. (武漢市漢德瑞美容有限公司) (“ Wuhan Handerui ”)	15.0%
Chen Ximeng (陳熙萌)	Wuhan Handerui	12.0%
Wang Li (王莉)	Wuhan Mengze Jingru Beauty Co., Ltd. (武漢夢澤境如美容有限公司) (“ Wuhan Mengze ”)	20.0%
Yuan Jing (袁菁) ⁽¹⁰⁾	Wuhan Mengze	10.0%
Long Yongli (龍永麗)	Xian Beauty Farm Beauty Service Co., Ltd. (西安美麗田園美容服務有限公司)	36.00%

Notes:

- (1) Unless otherwise indicated, interest indicated herein are beneficial interest.
- (2) Song Jian (宋健) holds 100% interest in Beijing Jianda System Equipment Co., Ltd. (北京建達系統設備有限責任公司), and is therefore deemed to be interested in the Shares held by Beijing Jianda System Equipment Co., Ltd. (北京建達系統設備有限責任公司), including its 12.5% interest in Beijing Limei Farm Beauty Co., Ltd. (北京麗美田園美容有限公司) and 25.0% interest in Beijing Limei Farm Enterprise Management Co., Ltd. (北京麗美田園企業管理有限公司).
- (3) Gu Junyuan (顧峻源) holds 100% interest in Beijing Yida Hongtai Investment Management Co., Ltd. (北京奕達弘泰投資管理有限公司), and is therefore deemed to be interested in the Shares held by it in Beijing Limei.

- (4) Zhang Xiaoda (張效達) holds 100% interest in Jilin Province Ruiwen Investment Co., Ltd. (吉林省瑞文投資有限公司), and is therefore deemed to be interested in the Shares held by it in Changchun Zhuoyan.
- (5) Qu Yanhong (瞿雁鴻) holds 100% interest in Changsha Beauty Farm Health Management Service Co., Ltd. (長沙美麗田園健康管理服務有限公司), and is therefore deemed to be interested in the Shares held by it in Changsha Yuhua Xiuke'er Medical Beauty Clinic Co., Ltd. (長沙雨花區秀可兒醫療美容診所有限公司).
- (6) Hu Caixiu (胡彩秀) holds 100% interest in Nanning Changli Beauty Service Co., Ltd. (南寧常麗美容服務有限公司) and is therefore deemed to be interested in the Shares held by it in Nanning Xiukeer Medical Beauty Clinic Co., Ltd. (南寧秀可兒醫療美容診所有限公司).
- (7) Wang Zhaohui (汪兆惠) holds 35% interest in Taiyuan Yanpan Business Management Partnership (Limited Partnership) (太原研潘商業管理合夥企業(有限合夥)) and is therefore deemed to be interested in the 10% equity interest held by it in Shanxi Lixing. Wang Zhaohui is also beneficially interested in 39% of the equity interest in Shanxi Lixing.
- (8) Wang Yizhe (王一哲) holds 99.9% interest in Shanxi Silver Fox Investment Co., Ltd. (山西銀狐投資有限公司) and is therefore deemed to be interested in the Shares held by it in Taiyuan Xiaodian.
- (9) Liang Yue (梁玥) and Chu Mingyan (褚明艷) each holds 50% of the equity interest in Wuhan Xinyuyuan Culture Communication Co., Ltd.
- (10) Yuan Jing (袁菁) holds 99% interest in Wuhan Chaozesheng Consulting Co., Ltd. (武漢潮澤盛諮詢有限公司) and is therefore deemed to be interested in the Shares held by it in Wuhan Mengze.

2. Particulars of Directors' Service Contracts and Letters of Appointment

We have entered into a contract with each of our Directors in respect of, among other things, compliance with relevant laws and regulations, observance of the Articles of Association and provisions on arbitration.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any service contract with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without payment of compensation other than statutory compensation).

3. Emoluments of Directors

The aggregate amount of emoluments and benefits in kind (including any possible payment of discretionary bonus and equity-settled share-based compensation expense) which was paid to our Directors for the years ended December 31, 2019, 2020 and 2021 were RMB3,134,000, RMB2,018,000 and RMB4,634,000 respectively (including RMB522,000, RMB522,000, and RMB1,387,000 of equity-settled share-based compensation expense, respectively).

It is estimated that emoluments and benefits in kind (including any possible payment of discretionary bonus and equity-settled share-based compensation expense) equivalent to RMB3,200,000 in aggregate will be paid and granted to our Directors by us in respect of the year ending December 31, 2022 under arrangements in force at the date of this prospectus.

The aggregate amount of remuneration and benefits in kind (including any possible payment of discretionary bonus and equity-settled share-based compensation expense) which were paid by the Group to our five highest paid individual (including both employees and Directors) for the years ended December 31, 2019, 2020 and 2021 were RMB23,110,000, RMB13,096,000 and RMB25,876,000, respectively.

None of our Directors or any past directors of any member of the Group has been paid any sum of money for each of the years ended December 31, 2019, 2020 and 2021 as (a) an inducement to join or upon joining the Company; or (b) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the years ended December 31, 2019, 2020 and 2021.

4. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or our chief executive has any interest or short position in the Shares, underlying Shares or debentures of us or any of our associated corporations (within the meaning of Part XV the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed on the Stock Exchange;
- (b) none of our Directors is aware of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is interested, directly or indirectly, in 10% or more of the issued voting shares of any member of our Group;

- (c) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who own more than 5% of the number of issued shares of the Company have any interests in the five largest customers or the five largest suppliers of the Group; and
- (d) save as disclosed in this prospectus, none of our Directors or any of the parties listed in “8. Qualifications of Experts” of this Appendix is:
 - (i) interested in our promotion, or in any assets which have been, within two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group; or
 - (ii) materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business.

D. SHARE INCENTIVE PLAN

1. 2022 Share Incentive Plan

The Company has conditionally adopted a 2022 share incentive plan (the “Share Incentive Plan” or “Scheme”) by a board resolution on March 24, 2022. The following is a summary of the principal terms of the Share Incentive Plan.

(a) Purposes of the Share Incentive Plan

The purposes of this Share Incentive Plan is to recognize and motivate the contributions by the eligible persons and give incentives thereto in order to retain them, as well as to attract suitable personnel for further development of the Group.

(b) Share Incentive Plan Participants

Persons eligible to receive grants under the Share Incentive Plan (the “Grant”) are employees or officers (excluding any Directors or any other core connected person of the Company) of the Group, including any prospective employees (who receives a grant as an inducement to join the Group); (the “Participants”).

(c) Share Incentive Plan Grants

Any Participant who accepts a Share Incentive Plan Grant in accordance with the terms of this Scheme, or (where the context so permits) any person who is entitled to any award in consequence of the death of the original

grantee (the “**Grantee(s)**”) will obtain a conditional right whereby the Grantee shall be entitled to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of exercise of the Share Units, less any tax, stamp duty and other charges applicable, as determined by the Committee in its absolute discretion.

(d) Status of the Share Incentive Plan

The Share Incentive Plan is conditional upon the satisfaction of the following conditions:

- (i) the passing by the shareholders of a resolution to authorize the Board to grant share units under the Share Incentive Plan (the “**Share Unit(s)**”) and to allot and issue, procure the transfer of, and otherwise deal with Shares in connection with the Share Incentive Plan;
- (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares underlying any Share Unit which may be granted pursuant to the Share Incentive Plan; and
- (iii) the commencement of trading of the Shares on the Stock Exchange; (collectively, the “**Share Incentive Plan Conditions**”).

(e) Term of the Share Incentive Plan

Subject to the Share Incentive Plan Conditions being satisfied and the termination clause in paragraph (y), the Share Incentive Plan shall be valid and effective for the period of ten (10) years commencing on the Listing Date (unless it is terminated earlier in accordance with its terms) (the “**Term**”), after which period no further awards will be granted, but the provisions of the Share Incentive Plan shall in all other respects remain in full force and effect and awards that are granted during the Term may continue to be exercisable in accordance with their terms of issue.

(f) Grant of Award

On and subject to the terms of the Share Incentive Plan and the terms and conditions that the Committee imposes pursuant thereto, the Committee shall be entitled at any time during the life of the Share Incentive Plan to make a grant to any Participant, as the Committee may in its absolute discretion determine (an “**Award**”).

Awards may be granted on such terms and conditions (e.g. by linking the vesting of their Share Units to the attainment or performance of milestones by any member of the Group, the Grantee or any group of Participants) as the Committee may determine, provided such terms and conditions shall not be inconsistent with any other terms and conditions of the Share Incentive Plan.

A Grant shall be made to a Participant by a letter and/or any such notice or document in such form as the Committee may from time to time determine (the “**Notice of Grant**”) and such Grant shall be subject to the terms as specified in the Share Incentive Plan and the Notice of Grant shall be substantially in the form prescribed in the Share Incentive Plan. By accepting the Award, the Participant shall undertake to hold the Award on the terms on which it is granted and be bound by the provisions of the Share Incentive Plan. To the extent that the Award is not accepted within the period determined by the Committee, it will be deemed to have been irrevocably declined and shall immediately lapse.

(g) Acceptance of Award

If the Participant accepts the offer of grant of Share Units by signing the Notice of Grant, he is required to sign the acceptance notice and return it to the Company within the period specified and in a manner prescribed in the Notice of Grant. Upon the receipt from the Participant of a duly executed acceptance notice, the Share Incentive Plan is deemed granted to such Participant from the date of the Notice of Grant, and the Participant becomes a Grantee in the Share Incentive Plan.

(h) Restrictions on Grants

The Committee may not grant any Awards to any Participants (the “**Excluded Participants**”) in any of the following circumstances:

- (a) the requisite approvals for that grant from any applicable regulatory authorities have not been obtained;
- (b) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the Awards or in respect the Share Incentive Plan unless the Committee determines otherwise;
- (c) where granting the Award would result in a breach by the Company, its subsidiaries or any of the directors of any applicable securities laws, rules or regulations; or
- (d) where such grant of Award would result in a breach of the limits of the Share Incentive Plan.

No Grant shall be made to, nor shall any Grant be capable of acceptance by, any Participant at a time when the Participant would or might be prohibited from dealing in the Shares by any applicable rules, regulations or laws. Further, a Grant must not be made after inside information has come to the Company's knowledge until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (a) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement;

no Award may be granted. Such period will cover any period of delay in the publication of a results announcement.

(i) Rights Attached to the Awards

The Share Units do not carry any right to vote at general meetings of the Company. No Participant shall enjoy any of the rights of a Shareholder by virtue of the grant of an Award pursuant to this Scheme, unless and until such Shares underlying the Award are actually transferred to the Grantee upon the vesting and exercising of the Share Unit according to the Scheme. Unless otherwise specified by the Committee in its entire discretion in the Notice of Grant, the Grantees do not have any rights to any Share Unit income, including cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions ("**Share Unit Income**") in respect of the Shares underlying an Award from the date that the Award is granted to the Vesting Date.

(j) Awards to be Personal to the Grantee

Unless otherwise approved by the Company in writing (to the extent permitted by law), an Award shall be personal to the Grantee and shall not be assignable or transferable by the Grantee provided that following the Grantee's death the Committee shall, in its absolute discretion, determine that the Share Units (and, where applicable, the Share Unit Income) under the Award(s) made to the deceased Grantee shall be deemed to have vested immediately prior to his death. Such vested Share Units (and, where applicable, the Share Unit Income) may be transferred by will or by the laws of testacy and distribution.

The terms of the Share Incentive Plan and the Notice of Grant shall be binding upon the executors, administrators, heirs, successors and assigns of the Grantee. Subject to the above, no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any Share Units. For the purpose of the Share Incentive Plan, "Family Members" means the Grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, any person sharing the Grantee's household (other than a tenant or employee), a trust in which these persons have more than 50% of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets, and any other entity in which these persons (or the Grantee) own more than 50% of the voting interests.

(k) Right of Appointment of Trustee

The Committee may appoint one or more independent trustee(s) (the "Trustee(s)") to assist with the administration and vesting of the Awards. Subject to the limitations and restrictions set out in this Scheme, the Company may from time to time cause to be issued to the Trustee such Shares or paid to the Trustees such contributed amount from the Company's resources as the Committee may in its absolute discretion determine, for the purchase of existing Shares (either on-market or off-market) at such range of purchase price as the Committee may direct or authorize and the payment of the related expenses, transaction levy, brokerage, tax, duties and levies in writing. The Shares so purchased shall be allocated to each selected Participant at such time and at such amount and with such vesting conditions as the Committee may from time to time determine and notify to the Trustee in writing accordingly.

(l) Vesting

Subject to compliance with the requirements of the Listing Rules, the Committee has the sole discretion to determine the vesting period and vesting conditions (if any) for any grant of Award(s) to any Grantee, which may also be adjusted and re-determined by the Committee from time to time.

Upon fulfillment or waiver of the vesting period and vesting conditions (if any) applicable to the Awards granted to each of the Grantees, a vesting notice (the "Vesting Notice") will be sent to the Grantee and the Trustee(s) by the Committee or by any other means as determined by the Committee in its sole discretion from time to time confirming (a) the extent to which the vesting period and vesting conditions (if any) have been fulfilled or waived, (b) the number of Shares (and, if applicable, the Share Unit Income) or the amount of cash equivalent that the Grantee will receive.

The Grantee is required to execute, after receiving the Vesting Notice, certain documents set out in the Vesting Notice that the Committee considers necessary (which may include, without limitation, a certification to the Company that he has complied with all the applicable terms and conditions set out in this Scheme and the Notice of Grant).

If all or any of the vesting conditions are not satisfied and no waiver of such condition is granted, the Share Unit under the Award, to the extent that such vesting conditions relate, shall be cancelled in a manner to be determined by the Committee in its absolute discretion.

(m) Rights on a Takeover, Scheme of Arrangement or Voluntary Winding-up

In the event a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement as set out in the Share Incentive Plan) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any Share Unit, the Committee shall, prior to the offer becoming or being declared unconditional, determine at its absolute discretion whether such Share Unit shall vest and the period within which such Share Unit shall vest. If the Committee determines that such Share Unit shall vest, it shall notify the Grantee that the Share Unit shall vest and the period within which such Share Unit shall vest.

(n) Lapse or Cancellation of Share Units

An unvested Share Units shall be lapsed and cancelled automatically upon the earliest of:

- (a) the date of the termination of Grantee's employment or service by the Company or any of its subsidiaries for cause or by reasons that the relevant subsidiary with which the Grantee is employed ceased to be a subsidiary of the Group; or
- (b) the date of the termination of Grantee's employment or service with the Company or the subsidiaries is terminated for any reason other than for cause (including by reason of resignation, retirement, death, disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for cause); or
- (c) the record date for determining entitlements under the scheme of arrangement referred to in paragraph (o); or
- (d) the date of the commencement of the winding-up of the Company; or

- (e) the date on which the Grantee commits a breach of paragraph (l);
or
- (f) the date on which it is no longer possible to satisfy any outstanding conditions to vesting.

The Committee shall have the right to determine what constitutes cause, whether the Grantee's employment has been terminated for cause, the effective date of such termination and whether someone is a competitor, and such determination by the Committee shall be final and conclusive.

Unless the Committee determines otherwise in its absolute discretion, the Grantee is entitled to exercise the vested Share Unit(s) by executing an exercise notice following the occurrence of the termination of Grantee's employment or service with the Company or any of the Subsidiaries which is terminated for any reason other than for Cause (including by reason of resignation, retirement, death, Disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for Cause).

The Committee may at any time cancel any unvested Share Units granted to a Grantee subject to consent by the Grantee. Where the Company cancels unvested Share Units and makes a grant of new Share Units to the same Grantee, such Grant may only be made with available Share Units to the extent not yet granted (excluding the cancelled Share Units) within the limits prescribed by paragraph 6 above. Notwithstanding the aforesaid in this paragraph, in each case, the Committee may in its absolute discretion decide that any Share Unit shall not be cancelled or determine subject to such conditions or limitations as the Committee may decide.

(o) Reorganization of Capital Structure

In the event of an alteration in the capital structure of the Company whilst any Share Unit has not vested by way of capitalization of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of shares, reduction of the share capital of the Company or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange (other than an issue of Shares as consideration in respect of a transaction to which any of the Company and/or its Subsidiaries is a party or in connection with any share option, restricted share or other equity incentive schemes of the Group or in the event of any distribution of the Company's capital assets to its shareholders on a pro rata basis (whether in cash or in specie, but other than dividends paid out of the net profits attributable to its shareholders for each financial year of the Company)), the Committee may, but is not obliged to, make corresponding alterations or any other alterations to the number or nominal amount of Shares underlying the outstanding Share Units, as it may deem appropriate at its absolute discretion.

(p) Amendment of the Share Incentive Plan

This Scheme shall be subject to the administration of the Committee in accordance with the rules of this Scheme. Save for any material amendments to the Scheme, this Scheme may be altered in any respect by a resolution of the Committee. The Committee's determination as to whether any proposed alteration to the terms and conditions of this Scheme is material shall be conclusive, provided in each case that such decision is made in accordance with the Articles and any applicable laws.

Any alteration to the terms and conditions of this Scheme, which is of a material nature, or any change to the terms of any Share Unit granted or agreed to be granted must be approved by the Committee, except where such alterations take effect automatically under the existing terms of this Scheme.

(q) Termination of the Share Incentive Plan

The Board or the Committee may at any time terminate the operation of this Scheme and in such event no further Share Units will be offered but in all other respects the provisions of this Scheme shall remain in full force and effect in respect of Share Units which are granted during the life of this Scheme and which remain unvested immediately prior to the termination of the operation of this Scheme.

(r) Administration of the Share Incentive Plan

This Scheme shall be subject to the administration of the Committee and the decision of the Committee shall be final and binding on all parties. The Committee shall have the right to:

- (i) interpret and construe the provisions of Share Incentive Plan,
- (ii) determine the persons who will be granted Awards under the Share Incentive Plan, the terms on which Awards are granted and when the Share Units granted pursuant to the Share Incentive Plan may vest,
- (iii) make such appropriate and equitable adjustments to the terms of the Awards granted under the Share Incentive Plan as it deems necessary,

- (iv) appoint one or more independent third party professionals and contractors to assist in the administration of the Share Incentive Plan and delegate such powers and/or functions relating to the administration of the Share Incentive Plan as the Board deems appropriate, and
- (v) make such other decisions or determinations as it shall deem appropriate in the administration of the Share Incentive Plan.

(s) *General*

Subject to any alterations in the event of the proposed Share Split, the maximum number of Shares which may be granted under the Share Incentive Plan is 3,092,784 representing 3% of the number of Shares in issue as of the date of this prospectus. The Trustee shall not exercise the voting rights attached to Shares under the Share Incentive Plan.

The following table summarizes the number of Share Units under the Share Incentive Plan granted to employees of the Company as of the Latest Practicable Date.

Name of grantee	Position held within our Group	Total Share Units granted	Total Share Units granted (post Share Split)	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering
Liu Jingfeng (劉靜峰)	Head of operations for the beauty operation management center	668,041	1,336,082	24.25	0.58%
Ha Xiaolei (哈小蕾)	Technical business director	445,361	890,722	24.25	0.39%
Wu Yue (吳悅)	Senior director of human resources	371,134	742,268	24.25	0.32%
Zhou Min (周敏)	Chief financial officer, secretary of the Board of Directors, joint company secretary	371,134	742,268	24.25	0.32%
Li Wenjun (李文俊)	Director of the president's office	247,423	494,845	24.25	0.21%
Ju Wei (居偉)	Senior director of information technology	247,423	494,845	24.25	0.21%
Feng Leiqiong (馮雷瓊)	Technical business director	222,680	445,361	24.25	0.19%
Shu Min (舒敏)	Deputy director of medical and aesthetic operations	148,454	296,907	24.25	0.13%
Liu Yuanqiong (劉園瓊)	Deputy director of anti-aging operations	92,784	185,567	24.25	0.08%
Tang Weifeng (湯偉峰)	Chief executive officer of Palaispa (貝黎詩) operations	92,784	185,567	24.25	0.08%
Yuan Dongdong (袁冬冬)	Recruitment director	92,784	185,567	24.25	0.08%
Wang Zhenning (王振寧)	Recruitment director	92,784	185,567	24.25	0.08%

Notes:

- (1) The date of grant for the Awards set out above is November 21, 2022.
- (2) The Awards will be vested to the grantee in 4 tranches on the first, second, third and fourth year following the Award grant date, provided that certain Group level performance goals are met at such time and the relevant grantee elects to make an award payment of RMB24.25 per Share Unit after the vesting date. If the vesting conditions are not met for any given tranche of the Award, the Share Units exercisable under such tranche will be voided, and will no longer be exercisable (even if the vesting conditions of subsequent tranches are fulfilled). The four tranches of the Awards are therefore exercisable by the relevant grantee (through payment of the aforementioned Award price) from December 31, 2023, December 31, 2024, December 31, 2025 and December 31, 2026 respectively and will all cease to be exercisable on December 31, 2027.
- (3) As all Shares underlying the Share Incentive Plan has already been issued to Thriving Team Limited, the outstanding Share Units will not have any dilutive effect on the shareholding of the Company upon Listing. Assuming full exercise of the Share Units granted under the Share Incentive Plan, the earnings per share of our Shareholders will be diluted by approximately 3.00%.

E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or our subsidiaries under the laws of the PRC.

2. Litigation

Except as disclosed in this prospectus, as of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on our Group's results of operations or financial condition, taken as a whole.

3. Preliminary Expenses

As of the Latest Practicable Date, our Company has not incurred any material preliminary expenses for the purpose of the Listing Rules.

4. Promoter

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any Promoter in connection with the Global Offering and the related transactions described in this prospectus.

5. Taxation of Holders of Shares**(1) Hong Kong**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.13% of the consideration or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(2) Cayman Islands

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(3) Consultation with professional advisers

Potential investors in the Global Offering are urged to consult their professional tax advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our Shares.

6. Application for Listing

The Joint Sponsors has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

7. No Material Adverse Change

Save as disclosed in the paragraph headed “Summary — Recent Developments and No Material Adverse Change” in this prospectus, our Directors confirm that, as of the date of this prospectus, there has been no material adverse change in the financial or trading position or prospect of our Group since June 30, 2022 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

8. Qualifications of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinion and/or advice in this prospectus are as follows:

Name	Qualifications
Morgan Stanley Asia Limited	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO
Haitong International Capital Limited	Licensed to conduct Type 6 (advising on corporate finance) of the regulated activity under the SFO
Huatai Financial Holdings (Hong Kong) Limited	Licensed under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO

Name	Qualifications
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong), and a Registered Public Interest Entity Auditor under the Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Grandall Law Firm (Shanghai)	Legal adviser to the Company as to PRC laws
Tian Yuan Law Firm	Legal adviser to the Company as to PRC laws and PRC data compliance law
Campbells	Legal adviser to the Company as to Cayman Islands laws
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer

As of the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

9. Consents

Each of the experts named in paragraph headed “8. Qualifications of Experts” above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

10. Joint Sponsors’ Independence

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors’ fees payable by us in respect of the Joint Sponsors’ services as sponsor for the Listing are US\$500,000 each.

11. Particulars of the Selling Shareholder

The Selling Shareholder will sell 16,141,000 Sale Shares, representing approximately 7.00% of the total issued share capital of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The number of Shares held by the Selling Shareholder prior to and following the sale of 16,141,000 Sale Shares are set out in the table below:

Name of the Selling Shareholder	Number of Shares held by the Selling Shareholder as of the Latest Practicable Date	Approximate percentage of shareholding of the Selling Shareholder in the total issued share capital of our Company as of the Latest Practicable Date	Number of Sale Shares to be sold by the Selling Shareholder	Number of Shares held by the Selling Shareholder immediately following completion of the Global Offering	Approximate percentage of shareholding of the Selling Shareholder in the total issued share capital of our Company immediately following completion of the Global Offering
Beijing Xinyu Meiye Holdings Limited	37,040,000	35.93%	16,141,000	57,939,000	25.13%

Particulars of the Selling Shareholder are set out below.

Name:	Beijing Xinyu Meiye Holdings Limited
Place of incorporation:	British Virgin Islands
Registered office address:	Sertus Incorporations (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands
Description:	a BVI business company incorporated in the British Virgin Islands with limited liability ultimately controlled by CITIC PE, and a substantial Shareholder of our Company
Number of Sale Shares:	16,141,000 Sale Shares, representing approximately 7.00% of the total issued share capital of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised)

12. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

13. Bilingual Prospectus

The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

14. Miscellaneous

Save as otherwise disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus, our Company has not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no Share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of our Company;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (h) our Company is not presently listed on any stock exchange or traded on any trading system; and
- (i) our Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the Sino-Foreign Joint Venture Law of the PRC.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE ON DISPLAY
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DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of the **GREEN** Application Form;
- (b) copies of each of the material contracts referred to in the paragraph headed “B. Further Information about the Business of the Company — 1. Summary of Material Contracts” in Appendix V to this prospectus;
- (c) the written consents issued by each of the experts and referred to in paragraph headed “E. Other information — 8. Qualifications of Experts” in Appendix V to this prospectus; and
- (d) the statement of particulars of the Selling Shareholder referred to in the paragraph headed “E. Other Information — 11. Particulars of the Selling Shareholder” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.beautyfarm.com.cn during a period of 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountant’s report of the Group for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022 from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of the Group for the three financial years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022;
- (d) the report received from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (e) the Frost & Sullivan Report;
- (f) the PRC legal opinions issued by Grandall Law Firm (Shanghai) and Tian Yuan Law Firm, our legal advisers on PRC law, in respect of our general matters and property interests;
- (g) the PRC legal opinion issued by Tian Yuan Law Firm, our legal adviser on PRC data compliance law, in respect of PRC data compliance law;

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE ON DISPLAY
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- (h) the letter issued by Campbells, our legal adviser on Cayman Islands laws, summarizing certain aspects of Cayman Companies Act referred to in the section headed “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law”;
- (i) the Companies Act (2022 Revision) of the Cayman Islands;
- (j) the letter and valuation certificate in relation to the property interest of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix IV to this prospectus;
- (k) the material contracts referred to in the paragraph headed “B. Further Information about the Business of the Company — 1. Summary of Material Contracts” in Appendix V to this prospectus;
- (l) the service agreements and letters of appointment referred to in “C. Further Information about Directors and Substantial Shareholders — 2. Particulars of Directors’ Service Contracts and Letters of Appointment” in Appendix V to this prospectus;
- (m) the written consents referred to in the paragraph headed “E. Other Information — 9. Consents” in Appendix V to this prospectus; and
- (n) the statement of particulars of the Selling Shareholder referred to in the paragraph headed “E. Other Information — 11. Particulars of the Selling Shareholder” in Appendix V to this prospectus.



贝黎诗
PALAISPA

CellCare
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NEOLOGY
研源医疗

Beauty Farm Medical and Health Industry Inc.