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OVERVIEW

We are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China, as measured by revenue in 2021. Our one-stop beauty and health management 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' desire to stay beautiful and healthy. Committed to providing client-centric services with good quality, we established our flagship brand, BeautyFarm (美麗田園) in 1993, which is one of the long-established domestic chain brands in China's beauty and health management service industry, along with three emerging 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.

Driven by the increasing disposable income *per capita* of Chinese population, elevated self-awareness of appearance and favorable policies and regulations that standardize the industry, China's traditional beauty service market is expanding rapidly. According to Frost & Sullivan, its market size reached RMB403.2 billion in 2021, and is projected to grow at CAGR of 5.3% to RMB640.2 billion in 2030. Along with the advancement of beauty related technologies and devices, 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. According to Frost & Sullivan, the revenue 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. When combining the fast-growing and ever integrated two 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.

We provide high-quality 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. In addition, our brand reputation through decades of dedication and commitment to China's traditional beauty service industry, scalable business model and customer acquisition channels, have enabled us to grow our client visits from 819,382 in 2019 to 1,054,952 in 2021 at a CAGR of 13.5%. During the six months ended June 30, 2022, our client visits were 460,241. Many clients became our members after their initial visits, and we consider the expanding, active and loyal 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

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approximately RMB10,736. Furthermore, 71.5% of our active members in 2019 made additional purchases during the Track Record Period.

We believe that 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) is the key to our success. 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).

We believe that our following attributes are critical to our brands and large client base:

- *Nationwide store network.* As one of the long-established 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 provided traditional beauty services under BeautyFarm (美麗田園) and Palaispa (貝黎詩), 18 direct stores provided aesthetic medical services under CellCare (秀可兒), and five stores provided 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 June 30, 2022, which propel us ahead of our peers, according to Frost & Sullivan. Our integrated service platform is capable of consolidating and processing massive troves of operational data accumulated from various systems across our store network. We also apply data mining and data analytics to obtain valuable insights to accurately 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.

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- *Professional staff.* Our professional 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 professional service personnel (including registered physicians, trained therapists, nurses, and store directors) nationwide. We are committed to incubating and nurturing a team of high-caliber service professionals through a structured professional cultivation scheme. We have established two BeautyFarm Training Centers (美麗田園培訓中心) in Shanghai and Wuhan, which provide our professional service personnel with robust 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 professional service personnel. In 2020, our training program was awarded the Digital Learning Project Innovation Award by CEIBS Digital (數字中歐).

Our business grew rapidly 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 [REDACTED], 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 STRENGTHS

Leading Beauty and Health Management Service Provider With Long-Established 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, 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 one-stop 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

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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. Furthermore, 71.5% of our active members in 2019 made additional purchases during the Track Record Period. 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 one-stop 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' desire to stay beautiful and healthy. 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).

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Constant Evolution of Business Model in Response to Market Demand, Offering Clients One-Stop 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 a Robust 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 robust 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

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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 robust 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 professional 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 are also committed to incubating and nurturing a team of high-caliber professionals through a structured professional cultivation scheme. We have built "BeautyFarm Training Center (美麗田園培訓中心)" in Shanghai and Wuhan, where our professional 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 professional 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 professional service personnel annual retention rates of 74.0% in 2021 within the beauty and health management service industry.
- *Leading 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

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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 and 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 accurately 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 professional service personnel. As of the Latest Practicable Date, we had developed 37 information management systems covering different aspects of our operations with 81 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 and Loyal Members Supported by Our Leading CRM System

Our clients are at the core of our business. Our comprehensive service offerings have attracted a large base of active and loyal 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

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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 depth of 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 efficiently provide more precise and diversified services to our clients.

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 Fueled 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.

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Visionary and Seasoned Management Fortified by 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.

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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.

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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.

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- *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 professional 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, such as collagen, 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.

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- *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 professional 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 professional 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 professionals 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 professionals, we plan to attract and recruit more professional talent 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 professional, 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.

BUSINESS

Integrate Industry Resources and Promote the Development of Industry Standards by Deepening Cooperation With Upstream Suppliers and Providing Guidance and Support to Market Participants

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 and guidance to local traditional beauty service providers, especially smaller standalone community stores with stable client base, by sharing our 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 professional talent hub, which can provide systematically 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 growing store network consists of our flagship BeautyFarm (美麗田園) brand, as well as emerging 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 long-established 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:

<u>Name of the brand</u>	<u>Direct store number as of June 30, 2022</u>	<u>Service focus</u>	<u>Business model</u>
 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	37.6	673,025	37.8	338,634	40.5	275,556	37.5
Neology (研源)	64,353	4.6	91,110	6.0	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
Franchise 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) is our long-established brand with its service focus 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.

BUSINESS

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 (ii) 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	
	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>	759,826	54.1	757,008	50.4	941,357	52.9	423,223	50.5	383,044	52.2
<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	7.9	86,805	5.8	101,816	5.7	44,668	5.3	42,027	5.7
<i>Subtotal</i>	115,987	8.3	91,102	6.1	105,427	5.9	45,989	5.5	44,998	6.1
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*	64,353	4.6	91,110	6.1	60,931	3.4	28,984	3.5	30,720	4.2
Total	1,404,752	100.0	1,503,296	100.0	1,780,740	100.0	836,830	100.0	734,318	100.0

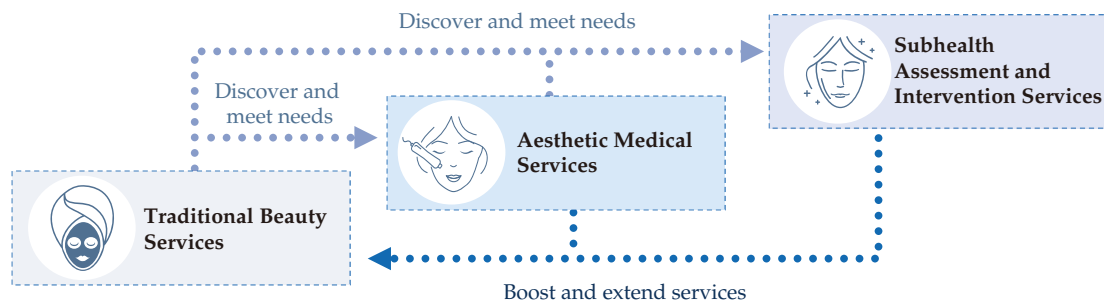
Note:

* 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 document as it cannot be properly attributable to operation of any specific stores.

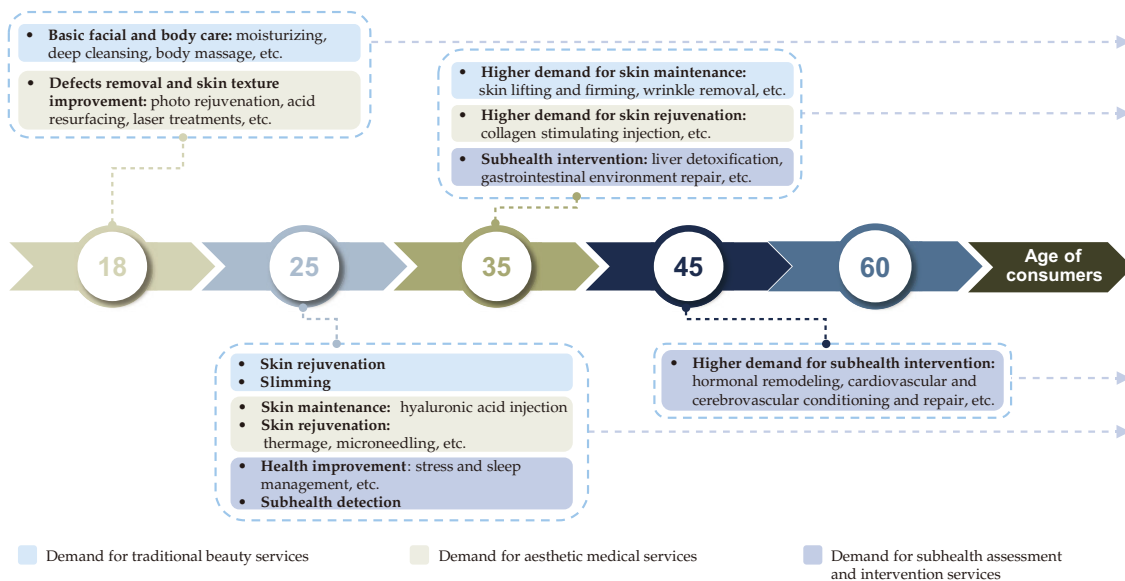
BUSINESS

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’ desire to stay beautiful and healthy. We first win 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 depth of 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 efficiently provide more precise and diversified services to our clients, and further helps us retain clients and increase client spending:

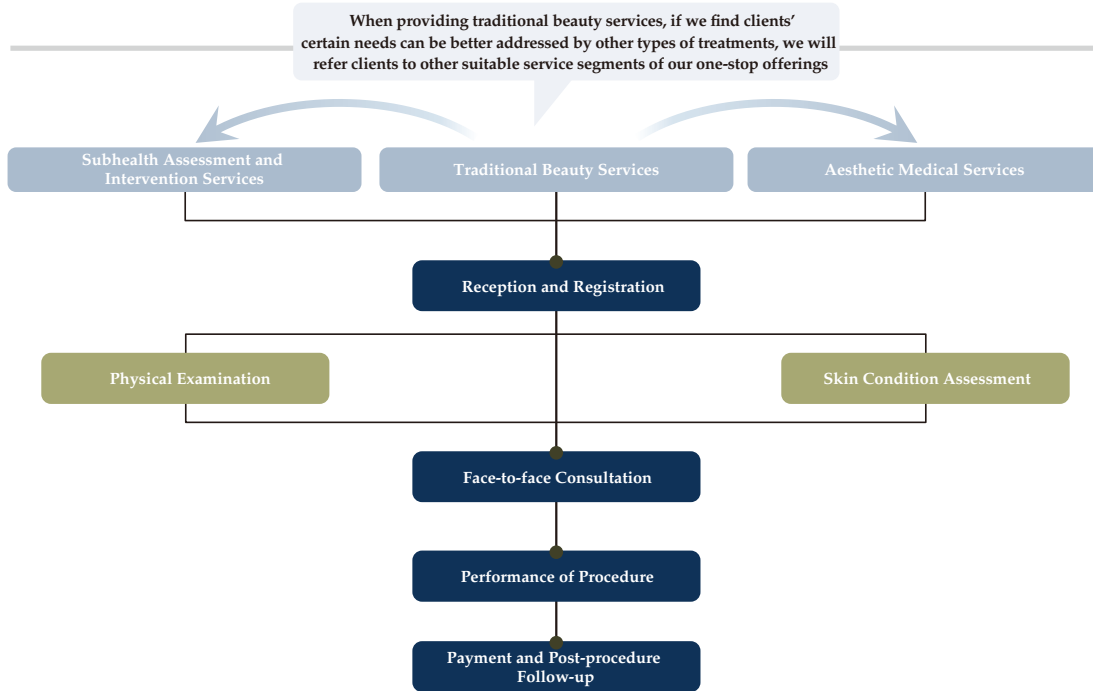


Our one-stop service offerings also enable us to cater to our clients’ evolving demands along their lifecycle:



BUSINESS

The following chart provides an overview of the typical process of our beauty and health management services:



BUSINESS

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 win 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:



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.

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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:

Service procedure	Description	Price range per service procedure as of Latest Practicable Date ⁽¹⁾⁽²⁾
		(RMB)
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
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.

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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 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 document include visits by our members as well as new clients who have not yet registered as our members.

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	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Number of client visits	771,078	790,376	993,235
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

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

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details, see "History, Reorganization and Corporate Structure — Acquisition of Beijing Palaispa and Shanghai Luanmei" in this document. 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 professional 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.

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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

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 professional 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

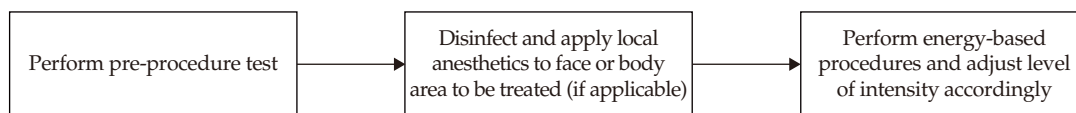
Notes:

- (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> (RMB)
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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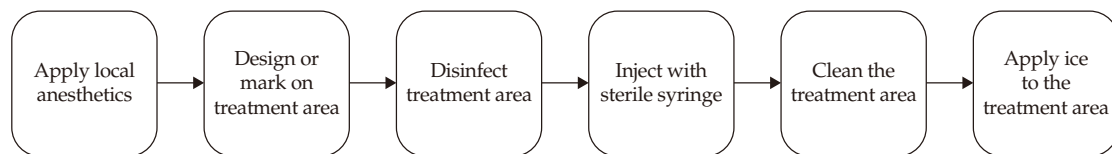
<u>Service procedure</u>	<u>Description</u>	<u>Intended effects</u>	<u>Price range per service procedure as of the Latest Practicable Date⁽¹⁾⁽²⁾</u> (RMB)
Injection of PLLA (童顏針)	Injecting NMPA-approved PLLA, 艾維嵐-Löviselle, into the skin of the face	Activating the regeneration of collagen	6,600-19,800
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 document. During the Track Record Period, revenue from such low-risk 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.

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:



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We provide such surgical aesthetic medical services with the purpose of providing clients with one-stop 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>	<u>Price range per service procedure as of Latest Practicable Date⁽¹⁾⁽²⁾</u> (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 deep 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 Qiyang in December 2020. For more details, see "History, Reorganization and Corporate Structure — Disposal of Hainan Qiyang" in this document. Hainan Qiyang contributed importantly to our subhealth assessment and intervention services in 2019 and 2020 and this resulted in adverse impacts in 2021:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Number of client visits	5,009	10,049	8,755	4,618
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

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.

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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 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 the disposal of Hainan Qiyan:

	As of/for the year ended December 31,			As of/ for the six months ended
	2019	2020	2021	June 30, 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

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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 non-manual 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 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

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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 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 largely due to the disposal of Hainan Qiyang. 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 document. 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 [REDACTED]" in this document. 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.

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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.

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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.

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, where we grew rapidly and became a top market player. 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, 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
	2019	2020	2021	June 30, 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
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 an extensive 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:



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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, and are able to form a large and loyal client base soon after opening. 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
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
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	819,382	845,476	1,054,952	460,241
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	17,889	20,151	20,832	10,736

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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 have achieved healthy 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		Year ended		Six months ended	
	December 31,		December 31,		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 [REDACTED]" in this document.

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;
- *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;

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- *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 [REDACTED]" in this document. We also expect to expand our franchised store network in the future, with a focus on regional planning.

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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 professionals 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.

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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	
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⁾ (sq.m.)	Number of client visits
			RMB'000	% of total	RMB'000	Gross margin (%)		
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			558,160	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⁾ (sq.m.)	Number of client visits
			RMB'000	% of total	RMB'000	Gross margin (%)		
Shanghai Yifeng Waitanyuan CellCare Store (上海益豐外灘源秀可兒店)	Aesthetic medical services	2011	215,618	12.1	93,556	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	91,218	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	17,405	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	20,500	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	11,626	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	16,870	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	12,048	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	11,132	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	14,124	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	4,717	58.0	275	1,776
Total			659,634	37.0	375,650	56.9		

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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.

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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.

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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 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

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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 professional 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 professional service personnel. Our professional service personnel are properly trained when joining us and accept on-the-job training regularly. For details, see "— Professional Service Personnel" below in this section.

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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 document.

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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PROFESSIONAL SERVICE PERSONNEL

The qualification and expertise of our professional 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 professional team members at our stores as of June 30, 2022:

Professional service personnel	As of June 30, 2022
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 professional 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 professional service personnel annual retention rates of 74.0% in 2021 within the beauty and health management service industry.

We believe our experienced professionals are key to our success. We have assembled a team of experienced service personnel. Among all the professional 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 professionals 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 professionals with competitive compensation packages, continued medical education opportunities, nice working environment and career development. Our professional service personnel are compensated by fixed salaries and 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. For example, our registered physician is compensated by a fixed salary, allowance and commissions, which depends on the number and nature of procedures such registered physician has performed, or if applicable, a guaranteed monthly salary, whichever is higher. We do not compensate our physicians for selling our services or products. A trained therapist is compensated by a fixed salary, and allowance and can also earn commissions for performing service procedures or selling our services and products. A 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. A client manager or health consultant is compensated by a fixed salary as well as commissions 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.

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We are committed to incubating and nurturing a team of high-caliber professionals through a structured professional cultivation scheme, namely, the "BeautyFarm Training Center (美麗田園培訓中心)." We have established two BeautyFarm Training Centers (美麗田園培訓中心) in Shanghai and Wuhan to cultivate trained professionals 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 accurately 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.

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- *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.

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 efficiently provide more precise and comprehensive services to our clients.
- *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 [REDACTED] from the [REDACTED]. For details, see "Future Plans and Use of [REDACTED]" in this document.

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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 document. 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 document. 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 document.

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.

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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.

BUSINESS

During the Track Record Period, we have not experienced any material shortage or delay in the supply of inventories and consumables. For the years ended December 31, 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 the years ended December 31, 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

BUSINESS

Supplier	Name	Country	Principal business	Product or service supplied	Credit term for 2020	Purchase amount (RMB'000)	Percentage of total purchases	Length of relationship	Payment method
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 (RMB'000)	Percentage of total purchases	Length of relationship	Payment method
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

BUSINESS

Supplier	Name	Country	Principal business	Product or service supplied	Credit term for the six months ended June 30, 2022	Purchase amount (RMB'000)	Percentage of total purchases	Length of relationship	Payment method
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.

BUSINESS

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.

BUSINESS

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 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.

BUSINESS

We have set up procedures to govern our advertising activities. 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 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.

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.

BUSINESS

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 professional service personnel with requisite experience, qualifications and expertise, and providing professional training to our employees. For details, see "— Professional 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.

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)

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Year	Accreditation/Award	Accreditation organization
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)
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)

BUSINESS

<u>Year</u>	<u>Accreditation/Award</u>	<u>Accreditation organization</u>
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)

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.

BUSINESS

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.

<u>Nature of cases</u>	<u>As of December 31,</u>			<u>As of</u> <u>June 30,</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
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 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, the total number of refund applications received by the Company was 4,093 and 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.

BUSINESS

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 document. 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, as measured by revenue in 2021. We believe our principal competitive advantages are our scale, our digitalized robust platform capabilities, active and loyal 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 [REDACTED]" in this document.

BUSINESS

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 document.

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 professional 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 professionals at our stores, see "— Professional Service Personnel" in this section.

	<u>As of June 30, 2022</u>
Professional service personnel	1,898
General and administrative staff ⁽¹⁾	930
Sales and marketing staff ⁽²⁾	705
Research and development staff	85
Total	<u>3,618</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.

BUSINESS

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 189 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

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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.
- 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.

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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.

Remedies

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.

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- *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. We also organize fire drills on a regular basis to increase our employees' fire safety awareness.
- *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.

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 received 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.

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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 document.

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 177 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.

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- 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 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

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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.

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 document.

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Trademark and Franchise Agreement Disputes

Trademark Dispute

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. This case was still under review as of the Latest Practicable Date.

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, such litigations had been either resolved in favor of us or withdrawn by the plaintiff and had non-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.

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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. Our management team 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.

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 document.

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, so in practice, the amount of medical waste, wastewater and pollutants our stores actually discharge are far below the permitted level.

We generate various medical wastes and substances, such as used disposable medical supplies and devices including needles, cotton pads and other wound dressings, from various procedures during our provision of beauty and health management services to our clients. 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. We have also adopted the guidelines to prepare our staff for the potential emergency situations. 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.

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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. 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. We expect to strengthen the monitoring and implementation of guidelines related to the handling, use, storage, treatment and disposal of medical waste. 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.

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 ton and 70.4 thousands ton, 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

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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 would also 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 will also 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. 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. 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.

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.

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 document.

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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 document.

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 is of the view that there is no material impediment for us to comply with relevant laws and regulations.

PROPERTIES

The Property Valuation Report from JLL, an independent property valuer, set out in Appendix IV of this document, 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 304 properties in the PRC with an aggregate GFA of approximately 88,305.38 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 258 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.

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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 46 leased properties had not provided us with relevant title ownership certificates to demonstrate their ownership in spite of our repeated requests, and among the 46 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.

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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 document.

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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 document. 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 [REDACTED], 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 document;
- 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 [REDACTED], 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.

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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.

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- 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.