This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide to **[REDACTED]** *in the* **[REDACTED]**. *There are risks associated with any* **[REDACTED]** *in the* **[REDACTED]**. *Some of the particular risks in* **[REDACTED]** *in the* **[REDACTED]** *are set out in the section entitled "Risk Factors" in this document. You should read that section carefully before you decide to* **[REDACTED]** *in the* **[REDACTED]**.

OVERVIEW

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

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

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

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

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

- *Standardized services supported by digitalized platform.* We apply digitalized tools to provide clients with personalized services and to improve operational efficiency. We had developed 37 proprietary information management systems as of the Latest Practicable Date. Our integrated service platform is capable of consolidating and processing operational data accumulated from various systems across our store network. We also apply data mining and data analytics to obtain valuable insights to profile our clients' transaction patterns, consumption habits, and lifetime client value. Such tech-enabled enhancements allow us to customize our services according to clients' needs so as to maintain their stickiness and identify cross-selling opportunities. In addition, we are one of the earliest adopters of mobile reviewing system, where our clients are able to review and comment on our services in real-time. Moreover, our digitalized client relationship management ("**CRM**") system is thorough, convenient and prompt, offering a fast feedback mechanism for client inquiries, appointments, complaints and post-service reviews.

- *Experienced service personnel.* Our service personnel at our stores are vital to the quality of our services and our competitiveness. As of June 30, 2022, we had a total of 1,898 service personnel (including registered physicians, trained therapists, nurses, and store directors) nationwide. We have established two BeautyFarm Training Centers (美麗田園培訓中心) in Shanghai and Wuhan, which provide our service personnel with pre-work and ongoing training. Since their establishment, our BeautyFarm Training Centers (美麗田園培訓中心) have provided over 13,000 sessions to our service personnel.

In addition, our business growth in the past was also attributable to strategic acquisitions, our visionary and seasoned management, and strong shareholder support. Our business grew continuously in 2019, 2020 and 2021. Our total revenue increased by 7.0% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020, and further increased by 18.5% to RMB1,780.7 million in 2021. We recorded a net profit of RMB147.4 million in 2019, RMB152.2 million in 2020, and RMB208.3 million in 2021 at a CAGR of 18.9% from 2019 to 2021. Due to the adverse impact of recurrence of COVID-19 ("**Recurrence**") in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022; our net profit decreased from RMB105.1 million for the six months ended June 30, 2021 to RMB19.8 million for the six months ended June 30, 2022. Excluding the effects of share-based compensation expenses and [**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 STRATEGIES

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

OUR BRANDS, STORE OPERATION MODEL, SERVICES AND STORE NETWORK

Our Brands

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

Name of the brand	Direct store number as of June 30, 2022	Service focus	Business model
美麗田園 Beauty Farm	139	Traditional beauty services	Direct store and franchised store
贝黎诗 PALAISPA	15	Traditional beauty services	Direct store and franchised store
CellCare 秀可儿医美	18	Aesthetic medical services	Direct store
NEOLOGY 研源医疗	5	Subhealth assessment and intervention services	Direct store
Total	**177**		

Our Store Operation Model

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

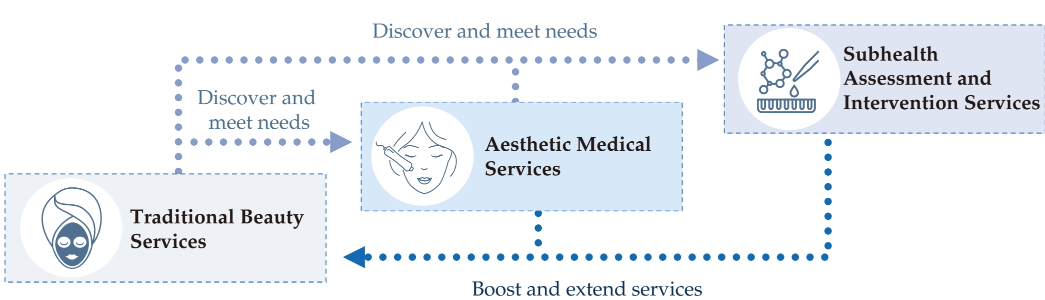
We have introduced franchised store model for traditional beauty services for over 15 years and generated revenue primarily from franchise fees as well as product sales from franchised stores. During the Track Record Period, the revenue contributions from our franchised stores amounted to RMB84.5 million,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

Our Services

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

The traditional beauty services provided under our BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands are non-medical and non-invasive in nature, and primarily include facial and body care service procedures intended to improve skin condition and overall physical well-being of our clients. The aesthetic medical services provided under our CellCare (秀可兒) brand are primarily non-surgical procedures, including energy-based services and injection services. The energy-based service procedures involve the use of energy-based equipment, such as laser, radiofrequency, intense pulsed light and cryolipolysis (also known as fat freezing). The injection service procedures are minimally invasive injection procedures using active substance such as botulinum toxin type A and hyaluronic acid. To a limited extent, our CellCare (秀可兒) stores also provided surgical aesthetic medical services that are classified as low-risk Grade I medical procedures according to the applicable laws and regulations, during the Track Record Period, such as double eyelid construction, lipofilling and liposuction procedures, which contributed 2.8%, 5.5%, 4.8% and 3.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. In addition, surgical aesthetic medical services are performed by registered physicians who have obtained requisite licenses and training. We have obtained requisite licenses and approvals to provide such surgical aesthetic medical services during the Track Record Period. The subhealth assessment and intervention services provided under our Neology (研源) brand include detection, assessment and intervention of subhealth conditions. There is currently no recommendation from national or international treatment guidelines for assessment or intervention measures for subhealth status, including subhealth assessment and intervention services provided by the Company. However, the Company's subhealth assessment and intervention services aim to improve clients' health conditions, by way of regulating and enhancing the functions of the organ systems of the client's body by applying functional medicine. We offer a wide variety of traditional beauty service procedures and aesthetic medical service procedures. The average price range of traditional beauty service procedures is from approximately RMB100 to RMB2,000 and the average price range of aesthetic medical service procedures is from RMB800 to RMB396,000, depending on the nature of the selected procedure and the specific client's conditions and needs. The average price of an subhealth assessment and intervention service procedure varied with the nature of the purchased service procedure, averagely costing from approximately RMB1,000 to RMB38,000.

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



Financial Performance of our Services

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Traditional beauty services										
Direct stores										
– 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
Subtotal	759,826	54.1	757,008	50.4	941,357	52.9	423,223	50.5	383,044	52.2
Franchisee and others										
– Franchise fees	5,474	0.4	4,297	0.3	3,611	0.2	1,321	0.2	2,971	0.4
– Products sales[1]	110,513	7.8	86,805	5.7	101,816	5.7	44,668	5.3	42,027	5.7
Subtotal	115,987	8.2	91,102	6.0	105,427	5.9	45,989	5.5	44,998	6.1
Aesthetic medical services[2]	464,586	33.1	564,076	37.6	673,025	37.8	338,634	40.5	275,556	37.5
Subhealth assessment and intervention services	64,353	4.6	91,110	6.0	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**

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* (Unaudited)	%	*RMB'000*	%
BeautyFarm (美麗田園)	675,978	48.1	696,252	46.4	855,966	48.1	381,809	45.6	351,977	48.0
Palaispa (貝黎詩)	83,848	6.0	60,756	4.0	85,391	4.8	41,414	4.9	31,067	4.2
CellCare (秀可兒)[2]	464,586	33.1	564,076	37.6	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**

Notes:

(1) Included product sales to franchised stores amounted to RMB79.0 million, RMB66.6 million, RMB83.8 million and RMB32.8 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, as well as product sales to others (primarily include (i) product sales to or through Shanghai Luanmei, whose primary business is the operation of online stores on Tmall (天貓商城) as well as (ii) product sales in beauty exhibitions) amounted to RMB31.5 million, RMB20.2 million, RMB18.0 million and RMB9.2 million, for the same period.

(2) During the Track Record Period, our revenue from non-surgical aesthetic medical services contributed 30.3%, 32.1%, 33.0% and 33.7% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. In addition to non-surgical aesthetic medical services, to a limited extent, our CellCare (秀可兒) stores also provided surgical aesthetic medical services during the Track Record Period that are classified as low-risk Grade I medical procedures according to the applicable laws and regulations, such as double eyelid construction, lipofilling and liposuction procedures, which contributed 2.8%, 5.5%, 4.8% and 3.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

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

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

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

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
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**

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

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

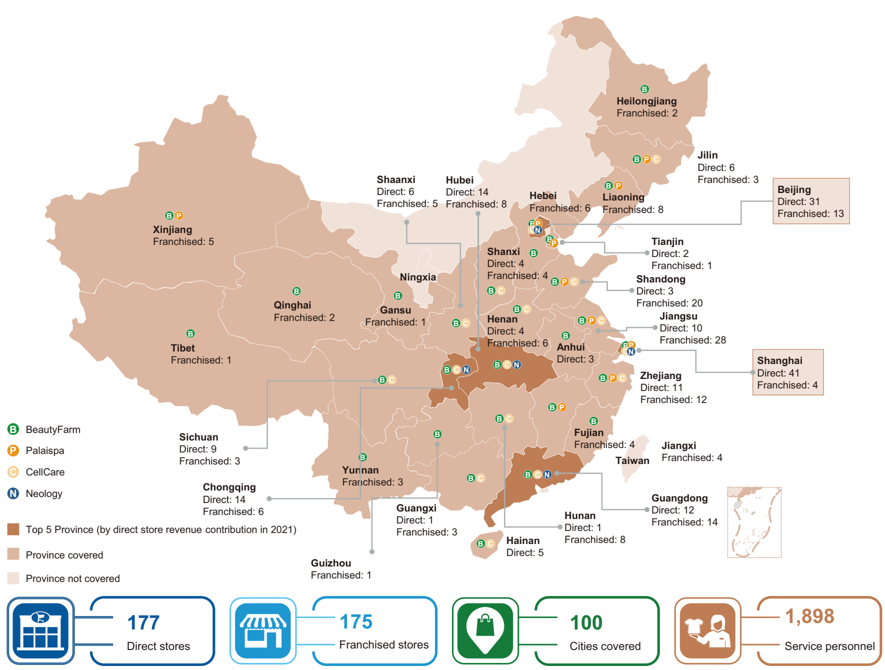
For subhealth assessment and intervention services under Neology (研源), our gross profit and gross profit margin fluctuated over year or period. The gross profit margin of subhealth assessment and intervention services decreased from 2019 to 2020 because we opened two additional Neology (研源) healthcare centers in the second half of 2019. Since it generally took time for newly-opened stores to ramp-up its performance, we incurred more costs as compared to revenue at their initial stage of operations, which negatively affected the gross profit margin of our subhealth assessment and intervention business. Our gross profit from subhealth assessment and intervention services decreased from 2020 to 2021, primarily due to the decrease in revenue resulted from less clients served. Since 2021, we also started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period. Our gross profit and gross profit margin from subhealth assessment and intervention services increased from the six months ended June 30, 2021 to the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. For details, see "Financial Information — Results of Operations" in this document.

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

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

Our Store Networks

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



Note: As of June 30, 2022

KEY OPERATING METRICS

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

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

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

Note:

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

Traditional Beauty Services

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

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

Aesthetic Medical Services

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

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

Subhealth Assessment and Intervention Services

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

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

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

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

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

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

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

MARKET AND COMPETITION

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

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

The subhealth assessment and intervention service market is an emerging market at a relatively early stage. Existing players in traditional beauty service market or non-surgical aesthetic medical service market may add subhealth assessment and intervention services to their service portfolios. According to Frost & Sullivan, its market size reached RMB7.0 billion in 2021, and is forecasted to reach RMB29.0 billion in 2030, with a CAGR of 17.1% from 2021 to 2030. In terms of revenue generated from subhealth assessment and intervention services in 2021, the Company's market share is approximately 0.9%. For more details of our market position and the competitive landscape of the markets, see "Industry Overview" in this document.

SUMMARY HISTORICAL FINANCIAL INFORMATION

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

Selected Consolidated Statements of Profit or Loss

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

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

Non-HKFRS Measure

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

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

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

Our business continued growing from 2019 to 2021, and our net profit consequently increased steadily from RMB147.4 million in 2019 to RMB152.2 million in 2020, and further to RMB208.3 million in 2021, with a stable net profit margin of 10.5%, 10.1% and 11.7% in the three years respectively. The outbreak of COVID-19 and accompanying social distancing restrictions negatively impacted our operations in early 2020, but the demand soon resumed in the second half after the pandemic became contained, and consequently we still managed to record an increasing net profit in 2020 as compared to 2019 though with a slightly lower net profit margin. In the first six months of 2022, however, our net profit decreased to RMB19.8 million from RMB105.1 million in the same period of 2021, and net profit margin dropped from 12.6% to 2.7%, primarily as a result of the Recurrence of COVID, mobility restriction, and in particular the strict lockdown in Shanghai where we operated 41 direct stores. In addition, we incurred share-based compensations of RMB6.4 million and **[REDACTED]** of RMB**[REDACTED]**, which resulted in the decrease in our profit for the six months ended June 30, 2022. For details, see "Financial Information — Results of Operations" in this document.

Summary Data From Consolidated Statements of Financial Position

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

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

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

Summary Consolidated Statements of Cash Flows

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

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

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

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

Non-Compliance

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

OUR CLIENTS AND SUPPLIERS

Major Customers

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

Major Suppliers

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

For each of 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from our five largest suppliers in each year/period during the Track Record Period amounted to RMB78.9 million, RMB86.4 million, RMB154.8 million and RMB70.0 million, respectively, representing approximately 46.5%, 41.0%, 48.8% and 52.4%, respectively, of our total purchases for the respective periods. For each of 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from our largest supplier in each year/period during the Track Record Period amounted to RMB22.8 million, RMB28.7 million, RMB48.6 million and RMB29.3 million, respectively, representing approximately 13.5%, 13.6%, 15.3% and 21.9%, respectively, of our total purchases for the respective periods. For details of concentration risk, see "Risk Factors — Risks Relating To Our Business and Industry — Risk Relating To Our Suppliers and Employees — We have engaged a limited number of suppliers, which may render us vulnerable to supply shortages and price fluctuations" in this document.

SUMMARY OF MATERIAL RISK FACTORS

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

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Store Network

As of the Latest Practicable Date, our store network consisted of 189 direct stores and 177 franchised stores.

Impact of COVID-19 Outbreak

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

Strict social distancing restrictions and temporary store closures were imposed after the COVID-19 emerged in early 2020. It significantly restricted our ability to provide our face-to-face services to our clients, and some customers remained hesitant to have in-person services such as spas or massages even after the restrictions were relaxed or lifted. Stores in our network were closed temporarily due to cautionary measures.

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

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

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

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

Furthermore, at the time when COVID-19 was relatively under control in July and August of 2022, our operating income achieved year-on-year growth, with some cities achieving year-on-year growth of 20% or more. Specifically, in the week of June 23, 2022, our business operations in Shanghai had gradually resumed to the normal operation, and the client traffic recovered for approximately 86% and client spending recovered for approximately 97% as compared with that of the same period in 2021. Since November 2022, there are sporadic outbreaks in multiple regions and certain of our direct and franchised stores have experienced store closure to comply with relevant government policies. We have been actively monitoring the development of COVID-19 in China.

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

- **Product sales and supply chain:** The sales of our products and supply chain have been affected by the COVID-19 pandemic. Lockdowns and limitation on mobility affected our abilities to ship our products to franchised stores and other direct stores. We experienced slight delay in our supply procurement but did not experience significant fluctuations in the prices of our supplies. As the Recurrence gradually became contained, the delivery of products from warehouses has resumed normal.

- **Training:** Our employees are required to participate pre-work training and will participate another session prior to their promotions or introduction of new services. Due to the impact of Recurrence, we were unable to provide offline trainings as scheduled. However, we believe the impact of Recurrence on our training is temporary and we actively implement online training programs which allow our service personnel to participate at home. We also introduced tech-enabled solutions such as AI tools to simulate offline training scenarios. Through those tech-enabled tools, we are able to provide required trainings and evaluations on time and better prepare for the recovery of the Recurrence.

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

Recent Amendments on PRC Laws and Regulations

Regulations in Relation to our Services

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

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

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

Foreign Investment

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

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

(i) On December 24, 2021, CSRC held a press conference in relation to the Draft Regulations for Comments, during which the spokesperson of the CSRC stated that "conditional upon complying with the domestic laws and regulations, enterprises with VIE structure that have met the compliance requirements may seek listing overseas after completing proper filing procedures". Our reorganization and the Contractual Arrangement do not violate the M&A Rules or other relevant PRC laws and regulations and the registration under SAFE Circular 37 has been duly completed;

(ii) As of the Latest Practicable Date, there are no laws, regulations or regulatory documents cited by the CSRC in effect that would explicitly require us to comply with any approval, verification or filing procedures for our proposed [**REDACTED**]. If the Draft Regulations for Comments are promulgated and implemented with their current contents and in their current form, there is no material obstacles for us to comply with the filing procedures under the Draft

Regulations for Comments for the followings: (a) there are no specific clauses in national laws and regulations and relevant provisions prohibiting our proposed [**REDACTED**]; (b) we have not received any inquiry, notice, warning, or sanctions regarding cybersecurity review, the [**REDACTED**] plan or other national security related [**REDACTED**];

(iii) Based on the assessment of our PRC Legal Advisers, we do not fall into the scope of any of the following circumstances under which overseas securities [**REDACTED**] and [**REDACTED**] by domestic companies should be prohibited, as prescribed in the Drafts for Comments: (a) there are material ownership disputes over the equity, major assets, and core technology, etc.; (b) our domestic company or its controlling shareholders and actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations; (c) the directors, supervisors, or senior management have been subject to administrative punishments for severe violations in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations;

(iv) Each of our domestic subsidiaries has formulated its articles of association, improved its internal control system and regulated its corporate governance and financial and accounting practices in accordance with the Company Law of the PRC, the Accounting Law of the PRC and other PRC laws and regulations;

(v) We have established a confidentiality system and taken necessary steps to implement our duty of confidentiality. At the same time, we have established data security management policies and procedures and personal information protection policies and procedures to ensure our data security and compliance processing, and as advised by Tian Yuan Law Firm, as of the Latest Practicable Date, we had complied with all applicable requirements on cybersecurity and data protection as stipulated in the Draft Regulations for Comments in all material aspects;

(vi) The planned use of [**REDACTED**] from the [**REDACTED**] is in compliance with the requirements of the relevant regulations of the PRC.

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

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

Estimated Decrease in Net Profit for 2022

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

Declaration of Dividends

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

No Material Adverse Change

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

[REDACTED] STATISTICS[1]

The statistics in the following table are based on the assumptions that the **[REDACTED]** are completed and **[REDACTED]** Shares, comprising **[REDACTED]** and **[REDACTED]**, are offered in the **[REDACTED]**.

	Based on the [REDACTED] of HK$[REDACTED] per [REDACTED]	**Based on the [REDACTED] of HK$[REDACTED] per [REDACTED]**
	HK$	HK$
[REDACTED] of our Shares[2]	**[REDACTED]**	**[REDACTED]**
[REDACTED] adjusted consolidated net tangible assets per Share[3]	HK$**[REDACTED]**	HK$**[REDACTED]**

Notes:

(1) All statistics in this table are on the assumption that the **[REDACTED]** are not exercised.

(2) The calculation of **[REDACTED]** is based on **[REDACTED]** Shares expected to be in **[REDACTED]** immediately after completion of the **[REDACTED]**.

(3) The **[REDACTED]** adjusted consolidated net tangible assets of the Group attributable to owners of the Company per **[REDACTED]** is calculated after making the adjustments referred to in "Financial Information — **[REDACTED]** Statement of Adjusted Net Tangible Assets" and on the basis that **[REDACTED]** Shares were in issue assuming the **[REDACTED]** has been completed on June 30, 2022 without taking into account of the (i) dividend of RMB**[REDACTED]** declared on 8 December 2022; and (ii) **[REDACTED]** Shares to be granted after June 30, 2022 and vested over 4 years of service from date of grant pursuant to the Share Incentive Plan upon completion of **[REDACTED]**. However, had such the (i) dividend of RMB**[REDACTED]** declared on 8 December 2022; and (ii) **[REDACTED]** Shares been taken into account, such that **[REDACTED]** Shares are in issue immediately following the completion of the **[REDACTED]**, the **[REDACTED]** adjusted net tangible assets per Share would have been RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) (based on the **[REDACTED]** of HK$**[REDACTED]** per Share) and RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) (based on the **[REDACTED]** of HK$**[REDACTED]** per Share), respectively.

SHAREHOLDER INFORMATION

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

CITIC PE has been a Pre-[**REDACTED**] Investor of our Company since December 2013. As of the Latest Practicable Date, CITIC PE, through BVI Xinyu Meiye, holds 35.93% of our Shares. Mr. Zang Ye, through ZYLot Holdings Limited, invested in our Company in March 2022 and holds 0.19% of our Shares. Immediately upon completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), the two Pre-[**REDACTED**] Investors will hold [**REDACTED**]% and [**REDACTED**]% of our Shares, respectively. For more details, see "History, Reorganization and Corporate Structure — Pre-[**REDACTED**] Investments" in this document.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER — HAINAN QIYAN

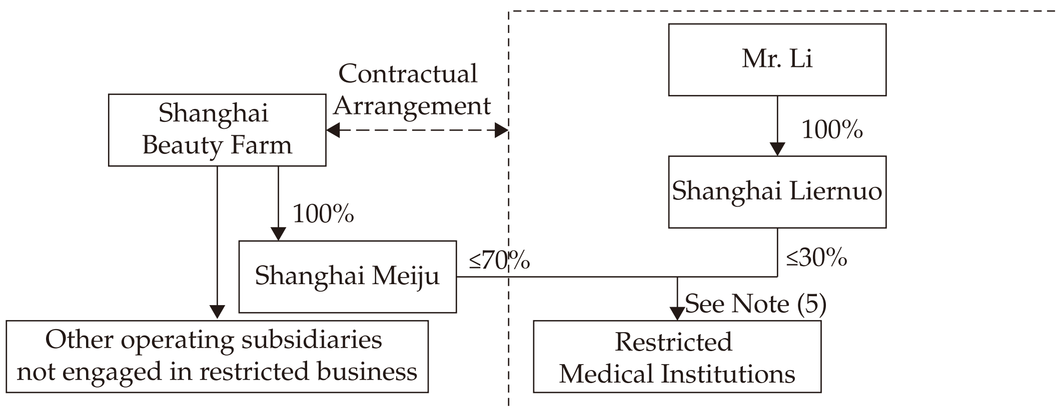
As of the Latest Practicable Date, our Controlling Shareholders are interested in the business of Hainan Qiyan, a medical services provider based in Bo'Ao, Hainan province. Hainan Qiyan operates a hospital primarily focused on the provision of frontier medical services with a focus on research, development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

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

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

CONTRACTUAL ARRANGEMENTS

Due to foreign ownership restrictions under PRC Laws, our Company is unable to own or hold 100% equity interest in the Restricted Medical Institutions conducting our businesses. We instead control part of their equity interest in these entities through Contractual Arrangements, through which we are able to consolidate the economic benefits enjoyed by Mr. Li from Shanghai Liernuo. The Contractual Arrangements apply to up to 30% equity interests in our Restricted Medical Institutions. In the opinion of our PRC Legal Advisers, the Contractual Arrangements does not constitute a breach of relevant laws and regulations and would not be deemed invalid or ineffective under the relevant PRC laws and regulations. For details, see "Contractual Arrangements" and also "Risk factors — Risks Relating To Our Corporate Structure" in this document. The following simplified diagram illustrates the key aspects of the Contractual Arrangements:



Notes:

(1) Mr. Li is the registered shareholder of Shanghai Liernuo.

(2) "⟷" denotes direct legal and beneficial ownership in the equity interest.

(3) "◀- - -▶" denotes contractual relationship.

(4) "- - - - -" denotes the entities that are subject to the Contractual Arrangements.

(5) For details of our Restricted Medical Institutions, please refer to the section headed "Contractual Arrangements — Our Contractual Arrangements" in this document.

DIVIDENDS

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

USE OF [REDACTED]

We estimate that we will receive net **[REDACTED]** from the **[REDACTED]** of approximately HK$**[REDACTED]**, after deducting **[REDACTED]**, fees and estimated expenses payable by us in connection with the **[REDACTED]**, and assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, which is the mid-point of the indicative **[REDACTED]** stated in this document. We intend to use the net **[REDACTED]** from the **[REDACTED]** for the following purposes: (i) **[REDACTED]**%, or approximately HK$**[REDACTED]**, will be allocated to expand and upgrade our service network, including expanding our traditional beauty service network with a focus on tier-one cities and new tier-one cities, expanding and upgrading our store network for aesthetic medical services and subhealth assessment and intervention services in new tier-one cities, and building one flagship beauty and health management service center in each of Shanghai and Beijing; (ii) **[REDACTED]**%, or approximately HK$**[REDACTED]**, will be used for strategic merger and acquisitions of franchised stores; (iii) **[REDACTED]**%, or approximately HK$**[REDACTED]**, will be allocated to further invest in our IT systems; and (iv) **[REDACTED]**%, or approximately HK$**[REDACTED]**, will be allocated to the working capital and other general corporate purposes. The **[REDACTED]** Shareholder estimates that it will receive net **[REDACTED]** from the **[REDACTED]** of approximately HK$**[REDACTED]**, at the **[REDACTED]** of HK$**[REDACTED]** per Share (being the mid-point of the indicative **[REDACTED]** range). We will not receive net **[REDACTED]** from the **[REDACTED]** of **[REDACTED]** pursuant to the **[REDACTED]**.

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

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] in relation to the **[REDACTED]** are estimated to be approximately RMB**[REDACTED]** (HK$**[REDACTED]**) (including **[REDACTED]**), at the **[REDACTED]** of HK$**[REDACTED]** per Share, and assuming the **[REDACTED]** is not exercised. Among the total **[REDACTED]**, approximately RMB**[REDACTED]**, or HK$**[REDACTED]** is expected to be borne by us and approximately RMB**[REDACTED]**, or HK$**[REDACTED]** is expected to be borne by the **[REDACTED]** Shareholder. As of June 30, 2022, we incurred a total of RMB**[REDACTED]** (HK$**[REDACTED]**) in **[REDACTED]**, among which **[REDACTED]** were recognized in our consolidated statement of comprehensive income, and **[REDACTED]** were recognized in the consolidated statement of financial position to be accounted for as a deduction from equity upon **[REDACTED]**.

We estimate that additional **[REDACTED]** of approximately RMB**[REDACTED]** (HK$**[REDACTED]**) (including **[REDACTED]** of approximately RMB**[REDACTED]** (HK$**[REDACTED]**), assuming the **[REDACTED]** is not exercised and based on the **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**) will be incurred by our Company, approximately RMB**[REDACTED]** (HK$**[REDACTED]**) of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB**[REDACTED]** (HK$**[REDACTED]**) of which is attributable to the issue of shares and will be deducted from equity upon **[REDACTED]**. Our **[REDACTED]** as a percentage of gross **[REDACTED]** is **[REDACTED]**, at an **[REDACTED]** of HK$**[REDACTED]** per Share, and assuming the **[REDACTED]** is not exercised. The **[REDACTED]** above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.