The following discussion and analysis should be read in conjunction with the consolidated financial information together with the accompanying notes in the Accountant's Report included in Appendix I to this document. Our historical financial information and the consolidated financial statements of our Group have been prepared in accordance with the HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Appendix I and not rely merely on the information contained in this section. Unless the context otherwise requires, historical financial information in this section is described on a consolidated basis.

The discussion and analysis set forth in this section contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this document. Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this document may be due to rounding.

OVERVIEW

We are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021. Our diversified service offerings cover traditional beauty services, aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services) as well as subhealth assessment and intervention services that are all personalized to serve our clients' health and beauty desire. We operate multiple chain brands in China's beauty and health management service industry, including BeautyFarm (美麗田園), our flagship brand established in 1993, and three other brands, namely, Palaispa (貝黎詩), Neology (研源) and CellCare (秀可兒). We have built a national direct store network, which consisted of 177 direct stores, including 84 stores in tier-one cities and 73 stores in new tier-one cities, as of June 30, 2022. In addition, our extensive national store network also included additional 175 stores operated by our franchisees as of the same date.

Our business grew continuously in 2019, 2020 and 2021. Our total revenue increased by 7.0% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020, and further increased by 18.5% to RMB1,780.7 million in 2021. Due to the adverse impact of Recurrence of COVID-19 in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022. We recorded a net profit of RMB147.4 million in 2019, RMB152.2 million in 2020, and RMB208.3 million in 2021 at a CAGR of 18.9% from 2019 to 2021. Excluding the effects of share-based compensation expenses and [**REDACTED**] expenses, our adjusted profit (non-HKFRS measure) for the six months ended June 30, 2021 and 2022 would be RMB108.0 million and RMB50.6 million, respectively.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Growth of Beauty and Health Management Service Industry in China

We are primarily operating in China's traditional beauty services. According to Frost & Sullivan, driven by the increasing disposable income *per capita* of Chinese population and elevated self-awareness of appearance, the size of China's traditional beauty service market reached RMB403.2 billion in 2021, and is projected to grow at a CAGR of 5.3% to RMB640.2 billion in 2030. In addition, we have started to offer aesthetic medical services since 2011. The size of non-surgical aesthetic medical service market reached RMB97.7 billion in 2021, and is forecasted to reach RMB415.7 billion in 2030, with a CAGR of 17.5% from 2021 to 2030, according to the same source. As the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider with a market share of 0.2% and 0.6%, respectively, leveraging our brand awareness, nationwide store coverage and client base, we believe we are well-positioned to capture this industry trend. Additionally, supported by our proprietary in-house training system, digitalized platform and supply chain management, we are well-prepared for the recent and coming regulations and policies that aim to standardize the industry. In addition, we have started to offer subhealth assessment and intervention services since 2018, and the subhealth assessment and intervention service industry is forecasted to reach RMB29.0 billion in 2030. Likewise, with the potential growth in the subhealth assessment and intervention service industry, it can further improve our business operations and financial performance.

Store Network Expansion

Our direct stores are the contact points to provide services and win the trusts from our clients, and therefore the number of direct stores greatly correlates to our service revenue, across all service offerings. In addition, we generate franchise fees from each franchised store, and our sales of products to them, who will in turn sell to end customers, also bring in product sales revenue. As a result, the number of franchised stores also positively correlates to our franchise fees and product sales revenue.

We have grown our store network significantly since we commenced operations in 1993. As of June 30, 2022, our store network extended to 177 direct stores and 175 franchised stores nationwide. We experienced rapid expansion in recent years over major cities. We expanded our direct store count from 154 at the end of 2019 to 177 at the end of 2021, representing a CAGR of approximately 7.2%. Through organic growth and acquisitions, we had 177 direct stores nationwide including 84 stores in tier-one cities and 73 stores in new tier-one cities, as of June 30, 2022. Going forward, we will continue to identify and evaluate acquisition opportunities in high-quality stores to capture growth opportunities.

Same-Store Sales Growth

We also closely track the revenue generated by our direct stores in the most recent accounting period relative to the revenue it generated in a similar period in the past, or same-store sales growth, to monitor how matured stores have performed over time. We see this also a useful metric to differentiate between revenue growth that comes from new stores and growth from improved operations at existing outlets.

Our BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores can be categorized into three groups based on their respective opening date, namely newly-established stores (i.e., stores that have been established for less than three years), developing stores (i.e., stores that have been established for at least three years, but less than eight years) and matured stores (i.e., stores that have been established for at least eight years). As of June 30, 2022, we had 31 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in newly-established stage, 50 BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in developing stage, and 73 established BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores in matured stage. We, however, do not manage our CellCare (秀可兒) stores and Neology (研源) healthcare centers by stages. Instead, we only proceed to open a CellCare (秀可兒) store or a Neology (研源) healthcare center in a city where we see clear and sufficient demand for aesthetic medical services and subhealth assessment and intervention services from our existing traditional beauty service clients in the same city. For example, our CellCare (秀可兒) stores normally do not experience long ramp-up period, and form a large and loyal client base soon after opening.

We also endeavor to constantly improve the performance of our stores, by offering a variety of services with high value, improving store operation efficiency, and harvesting cross-selling opportunities through our existing service offerings. For example, we experienced same-store sales growth across all our service offerings in 2021, with same-store growth rate of CellCare (秀可兒) stores and Neology (研源) healthcare centers of 18.7% and 26.6%, respectively. For traditional beauty services, we also achieved faster same-store growth rate of 42.5% in newly established stores as compared with that of 20.3% and 18.2% in developing stores and matured stores, respectively. The following table sets forth details of our same-store sales and same-store growth rate by development stage during the Track Record Period.

	Year ended December 31,		Year ended December 31,		Six months ended June 30,	
	2019	2020	2020	2021	2021	2022
Same store[(1)] sales (in thousands of RMB)						
Traditional beauty service stores						
– Newly-established stores [(2)]	67,096	81,147	81,460	116,058	32,747	34,524
– Developing stores[(2)]	250,899	236,720	220,446	265,141	122,700	106,574
– Matured stores[(2)]	424,174	392,594	440,189	520,282	259,711	220,613
CellCare stores	434,012	516,808	555,301	658,935	338,634	272,929
Neology healthcare centers	36,900	32,144	34,438	43,592	22,699	19,183
Overall	**1,213,081**	**1,259,413**	**1,331,834**	**1,604,008**	**776,491**	**653,823**
Same-store growth rate						
Traditional beauty service stores						
– Newly-established stores[(2)]	20.9%		42.5%		5.4%	
– Developing stores[(2)]	(5.7%)		20.3%		(13.1%)	
– Matured stores[(2)]	(7.4%)		18.2%		(15.1%)	
CellCare stores	19.1%		18.7%		(19.4%)	
Neology healthcare centers	(12.9%)		26.6%		(15.5%)	
Overall	**3.8%**		**20.4%**		**(15.8%)**	

Notes:

(1) Referring to stores that were open for more than 300 days in both of the two years under comparison or for more than 150 days in both of the six months under comparison.

(2) The development stage of each same store during the years under comparison was its development stage as of the end of the first year.

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

Service Mix

Our beauty and health management service offerings cover traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services that are all personalized to serve our clients' health and beauty desire. We first win client trust through our traditional beauty services, and then extend to more sophisticated services, such as aesthetic medical services and subhealth assessment and intervention services, across the full client lifecycle. Our clients have a long history of trusting our consistent service quality and brand characteristics, based on which some clients are attracted to purchase our aesthetic medical services and subhealth assessment and intervention services on a regular basis. With respect to our traditional beauty services, our direct store operation enjoys a gross margin profile different from that of our franchised stores. The revenue from franchised stores consists of sales of equipment and consumables as well as franchise fees, while the gross profit margin on sales of consumables and franchise fees is generally higher than that on sales of equipment.

In addition, our aesthetic medical services enjoy better gross profit margin than traditional beauty services by direct stores. Aesthetic medical services are in general a more lucrative service category than traditional beauty services, which can be reflected in the significantly higher price charged per each service session. One potential reason behind the relatively higher margin is the trust from our members and their willingness to purchase service packages with high value in pursuit of high quality services. Additionally, the different cost structure also contributes to the difference in gross margin. The cost of sales of traditional beauty services is largely composed of fixed staff costs and depreciation and amortization charges, and the service nature of traditional beauty services, which involves a relatively longer service period with the reliance on manual labor, also requires higher staff costs. By contrast, one of the largest cost of sales components of aesthetic medical services was product and consumable costs, which are only incurred when delivered to customers thus the costs are proportionate to client visit volume instead of fixed. Supported by our high operation efficiency, our business model is to only launch stores for aesthetic medical services when we see clear demand from our customers in traditional beauty services in the same city. For instance, in 2021, the gross profit margin of our aesthetic medical services was 57.4% as compared to 38.3% for our traditional beauty services by direct stores.

Ability To Control Our Costs and Expenses

Our results of operations and financial conditions depend on our ability to manage our costs and expenses. Our employees are the backbone of our high-quality services and rapid growth. It is each service personnel that delivers our services to clients face-to-face on a daily basis, and it is them that win the trust and confidence of our customers and lay the foundation of our continuous growth. In addition, we rely on other employees for selling and marketing, general and administrative and research and development purposes.

During the Track Record Period, our staff costs constituted the largest component of our general and administrative expenses, selling expenses and research and development expenses, and the second or third largest component of our cost of sales and services. In 2019, 2020, 2021 and the six months ended June 30, 2022, our total staff costs (including those recorded in cost of sales and services, selling expenses, general and administrative expenses and research and development expenses) accounted for 38.7%, 38.7%, 40.2% and 45.3%, respectively, of our total revenue for the same periods. The number of our employees has been increasing along with the growth of our business, and the increases in the staff costs during the Track Record Period were primarily attributable to such increase in the headcount and increased compensation level in order to recruit and retain service personnel and other employees. We also continue our efforts in retaining our employees in cities and regions impacted by the COVID-19 and provide them with stable compensation. As we currently offer and plan to continue to offer competitive compensation to retain and attract qualified and experienced employee, our results of operations and financial conditions are significantly affected by our ability to manage our costs and expenses relating to our staff.

Meanwhile, products and consumables used constituted a major component of our cost of sales and services. The increases in our products and consumable used during the Track Record Period were in line with our business growth. Products and consumables used was RMB238.1 million, RMB276.8 million, RMB306.8 million and RMB125.0 million, representing 34.2%, 34.5%, 32.4% and 29.7% of our total cost of sales and services in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Furthermore, our profitability is dependent on our ability to manage our operating expenses. Overall, we expect that our operating expenses will increase in absolute amount in the near future as our business grows and as we make necessary adjustments to operate as a public company. At the same time, we expect to continue to see a decrease as a percentage of our revenue as we improve operating efficiencies and leverage our business scale. For instance, our selling expenses as a percentage of revenue dropped from 19.8% in 2019 to 18.0% in 2020 and further to 16.8% in 2021.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The historical financial information has been prepared under the historical cost convention, except for the revaluation of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are stated at fair value.

The preparation of the historical financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 2 and Note 4 to the Accountant's Report included in Appendix I to this document.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. We set out below some of the accounting policies and estimates that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements. Our significant accounting policies, judgments and estimates, which are important for understanding our financial condition and results of operations, are set out in further details in Note 2 and Note 4 to the Accountant's Report in Appendix I to this document.

Significant Accounting Policies

Revenue Recognition

We are principally engaged in provision of traditional beauty services, aesthetic medical services and subhealth assessment and intervention services. Revenue comprises the fair value of the consideration received or receivable for the sales of products and services rendered in the ordinary course of our activities. Revenue is shown net of value-added tax, returns, refunds discounts and after eliminating sales within the Group.

Sales of Services

We sell prepaid card to end customers, which gives the right to end customers to redeem multiple services. Contract liabilities are recognized when we receive cash consideration from end customers. The total consideration is allocated to multiple performance obligations under the prepaid card based on their relative stand-alone selling prices.

Revenue is recognized when the services are rendered or the likelihood of the end customer exercising its remaining rights becomes remote. Based on the historical data, we determine no client interaction for 3 years as customer churn and recognize the unutilized packages in the prepaid card of these inactive end customers as revenue. We will assess the likelihood during each period and adjust the accounting estimates if applicable. When an inactive member returns after three years, the revenue previously recognized in relation to the unutilized packages in the inactive members' prepaid card will be reversed back to contract liabilities, and revenue will be recognized when the services are rendered subsequently. During the Track Record Period, the amount of revenue reversed for customers who had not received any services but had returned after 3 years was RMB0.8 million, RMB1.4 million, RMB2.2 million, and RMB1.6 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Frost & Sullivan is of the view that no expiration date for prepaid packages and no client interaction for 3 years as customer churn are in line with industry practice in the PRC. According to Frost & Sullivan, as traditional beauty services are regarded as a convenient approach for daily facial and body maintenance, the consumption frequency is significantly higher than that of surgical procedures provided by surgical beauty institutions. Traditional beauty service stores are likely to remind customers who have purchased prepaid cards but have not received any services during the relevant 12-month period. Therefore, the possibility for a customer who has not received any services but has returned after 3 years is remote.

As we have completed the requisite filing procedures relating to prepaid cards with competent authorities, the PRC Legal Advisers are of the view that our prepaid cards were sold in compliance with the relevant laws and regulations in China.

When there is a modification to the contract, for example, provision of additional distinct services to the end customer without any additional charge, we account for the modification prospectively. The contract consideration, which is the unrecognized consideration initially included in the transaction price of the contract before the modification, is allocated to the remaining performance obligations after the modification, including any unsatisfied performance obligations from the original contract.

Sales of Goods

We also generate revenue from sales of skincare products to customers. Revenue from the sale of skincare products is recognized when the products are accepted by the customers.

Franchise fee

We, as the franchisor, enter into franchise agreement with franchisee for 3 to 5 years. Franchise is a right to access license because we shall undertake activities that significantly affect the license, either positive or negative. Franchisee pays a fixed upfront fee and revenue from franchise fee is recognized over the franchise period. Training fees and other service fees are recognized when the services are rendered.

Goodwill

Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the city or region of business that goodwill is attributable to. For details of goodwill measurement, see Note 2.3 to the Accountant's Report in Appendix I to this document.

Intangible Assets

Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognized at fair value at the acquisition date. One of the trademarks has an infinite useful life and is subsequently carried at cost less impairment losses. Those trademarks with finite useful life are subsequently carried at cost less accumulated amortization and impairment losses.

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortized using the straight-line method over their estimated useful lives.

Customer Relationships

Customer relationships, which are acquired during business combinations, are recognized at fair value at the acquisition date. Customer relationships are carried at cost less accumulated amortizations. Amortizations is calculated using the straight-line method over the expected useful lives.

Research and Development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and developing of new or improved products and processes) are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Amortization Methods and Periods

We amortize intangible assets with a limited useful life using the straight-line method over the following periods:

Trademarks with finite useful life	10 years
Software	10 years
Customer relationships	7-8 years

Management estimated the useful life of the trademarks and software based on license period, expected technical obsolescence and innovations. Management estimated the useful life of customer relationships based on their industry knowledge, experience and judgment and took into account the historical customers renewal pattern of the acquired subsidiary. Therefore, the useful life for the customer relationships are 7 to 8 years.

Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by us. Contracts may contain both lease and non-lease components. We allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which we are is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by us under residual value guarantees;
- the exercise price of a purchase option if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects our exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or our incremental borrowing rate, the LPR rates when the leases were signed. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If we are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

Fair Value Estimation of Financial Assets and Liabilities

We measure our financial assets at FVPL and FVOCI at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset either in the principal market for the asset, or in the absence of a principal market, in the most advantageous market for the asset. The principal or the most advantageous market must be accessible by the Group.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the Track Record Period.

The changes in level 3 instruments during the Track Record Period are presented in Note 3.3 to the Accountant's Report set out in Appendix I to this document.

During the Track Record Period, our financial assets at FVTPL represented wealth management products we purchased. These wealth management products comprised short-term and low-risk financial products issued by commercial banks and state-owned trust companies in China. As these instruments were not traded in active market, their fair values were determined based on the expected rate of return on our investment. As of December 31, 2019, 2020, 2021, and June 30, 2022, our financial assets at fair value through profit or loss was RMB358.9 million, RMB658.4 million, RMB926.3 million, and RMB709.7 million, respectively.

In relation to the valuation of our Group's financial assets measured at FVTPL categorized within level 3 of fair value measurement, our Group had (i) reviewed relevant agreements and supporting documents, including investment agreements, memorandum of associations, among others, to understand the detailed underlying terms and conditions that may affect the valuation of financial instruments; (ii) inquired of the wealth management product professionals about the expected return rates ; (iii) compared the expected rate of return against the historical rate of return of such wealth management products and (iv) conducted valuation analysis by recalculating the expected market value of the financial products. In addition, the finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values and carefully considers all information especially those non-market related information input, which requires management assessments and estimates. This team reports directly to the chief financial officer. Discussions of valuation processes and results are held between the chief financial officer and the valuation team at least once every six months, in line with the group's half-yearly reporting periods. For valuation processes in details, see Note 3.3 to the Accountant's Report set out in Appendix I to this document. Based on the above-mentioned work, our management is satisfied with the categorization within level 3 of fair value measurement pursuant to the SFC's "Guidance note on directors' duties in the context of valuations in corporate transactions."

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 of the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on pages I-1 to I-3 of Appendix I to this document.

The Joint Sponsors have conducted the following independent due diligence work in relation to the level 3 fair value measurement: they (i) reviewed the relevant notes included in the Accountant's Report as contained in Appendix I to this document; (ii) discussed with the Company on the primary factors taken into account by the Company, key assumptions and methodologies adopted for the valuation of the level 3 financial assets, and the internal control measures undertaken by the Company for reviewing and approving the relevant valuation; and (iii) discussed with the Reporting Accountant in respect of the work performed in relation to the valuation of the level 3 financial assets for the purpose of reporting on the historical financial information of the Group for the Track Record Period as a whole. Having considered the work done by the Directors and the Reporting Accountant as stated above, nothing has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the valuation analysis performed by the Company.

Having taken into account the work performed by the Company's management and [the unqualified opinion] on the Historical Financial Information, as a whole, of the Group issued by the Reporting Accountant included in Appendix I to this document, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis and results performed by the Directors.

Critical Accounting Estimate

Impairment of Goodwill, Trademark With Infinite Useful Life

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our management conducted an impairment review on goodwill and trademark with infinite useful life. During the Track Record Period, the recoverable amount of cash-generating units ("**CGUs**") was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates. For details of impairment charge and key assumptions, see Note 21 to the Accountant's Report in Appendix I to this document.

Revenue Recognized From Unutilized Prepaid Packages

Most of our services are sold on a prepaid basis and offer a variety of prepaid packages. When a customer prepays for a service or product, the relevant payment is recorded as contract liabilities in balance sheets until we recognize revenue from the relevant prepaid package.

These prepayments give the customer a right to receive services or products in the future (and oblige us to stand ready to provide services or products). However, customers may not exercise all of their contractual rights for various reasons. Those expected unexercised rights are referred to as "forfeited income".

The expected unexercised rights on prepaid packages are estimated by management based on historical customer behavior and usage pattern and are recognized as revenue when the customers are inactive for 3 years and the likelihood of the customer exercising its remaining rights become remote. Forfeited income will be recognized in the consolidated statements of comprehensive income. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we recognized the net forfeited income amounted to RMB10.2 million, RMB13.4 million, RMB15.0 million, RMB5.1 million and RMB11.7 million, respectively, represented less than 1.6% of our total revenue each year or period. For the six months ended June 30, 2022, our forfeited income as a percentage of total profit was relatively high. Such unusual percentage was primarily due to the significant decrease in our profit for the six months ended June 30, 2022, as a result of the Recurrence of COVID-19 in 2022, resulting in the decreased customer volume and store closures. In addition, we incurred share-based compensations of RMB6.4 million and [**REDACTED**] expenses of RMB[**REDACTED**], which resulted in the decrease in our profit for the six months ended June 30, 2022.

Current and Deferred Income Tax

We are subject to corporate income taxes in the PRC. Judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

Depreciation of Property, Plant and Equipment

Our management determines the estimated useful lives and related depreciation charges for our property, plant and equipment with reference to the estimated periods that we intend to derive future economic benefits from the use of these assets. Management performs periodic review of the estimated useful lives of property, plant and equipment, and will revise the depreciation charges where estimated useful lives are different than those previously estimated.

Fair Value Assessment of the Trademarks and Customer Relationships and the Recognition of Goodwill Arising From Business Combinations

Significant judgments and estimates were involved in the fair value assessment of the identified trademarks and customer relationships and the recognition of goodwill arising from business combinations. These significant judgments and estimates include the adoption of appropriate valuation methodologies and the use of key assumptions in the valuation (mainly annual revenue growth rate, gross profit margins, discount rates and expected useful lives of customer relationships).

Contractual Arrangement

Due to the regulatory restrictions on the foreign ownership of certain part of the [**REDACTED**] business in the PRC, we do not have any legal equity interest in Shanghai Liernuo or the shares in the Medical Institutions held by Shanghai Liernuo. Our Directors assessed whether or not the Group has control over Shanghai Liernuo and the Medical Institutions by assessing whether it has the rights to variable returns from its involvement with Shanghai Liernuo and the Medical Institutions and has the ability to affect those returns through its power over Shanghai Liernuo and the Medical Institutions. After assessment, our Directors concluded that the Group has control over Shanghai Liernuo and the Medical Institutions as a result of the contractual arrangements and accordingly the financial position and the operating results of Shanghai Liernuo and the Medical Institutions can be included in the Group's consolidated financial statements. Nevertheless, the contractual arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shanghai Liernuo and the Medical Institutions and uncertainties presented by the PRC legal system could impede our beneficiary rights of the results, assets and liabilities of Shanghai Liernuo and the Medical Institutions. Our Directors consider that the contractual arrangements with Shanghai Liernuo, the Medical Institutions and their equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000* (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**
Selling expenses	(277,973)	(19.8)	(270,521)	(18.0)	(299,464)	(16.8)	(130,338)	(15.6)	(120,236)	16.4
Research and development expenses	(9,142)	(0.7)	(12,670)	(0.8)	(18,029)	(1.0)	(7,751)	(0.9)	(14,992)	(2.0)
General and administrative expenses	(237,375)	(16.9)	(224,057)	(14.9)	(272,450)	(15.3)	(131,835)	(15.8)	(167,260)	(22.8)
Other income	15,985	1.1	11,646	0.8	20,727	1.2	12,338	1.5	17,515	2.4
Other expense	–	–	–	–	(3,481)	(0.2)	(1,774)	(0.2)	(1,698)	(0.2)
Other gains	2,768	0.2	6,888	0.5	18,252	1.0	9,960	1.2	9,459	1.3
Reversal of/(provision for) impairment losses on financial assets	4,571	0.3	2,015	0.1	(1,306)	(0.1)	(550)	(0.1)	230	–
Operating profit	**207,175**	**14.7**	**213,325**	**14.2**	**278,035**	**15.6**	**139,001**	**16.6**	**37,047**	**5.0**
Finance income	852	0.1	1,134	0.1	1,283	0.1	606	0.1	1,038	0.1
Finance costs	(28,264)	(2.0)	(25,928)	(1.7)	(24,216)	(1.4)	(12,325)	(1.5)	(12,045)	(1.6)
Finance costs — net	(27,412)	(2.0)	(24,794)	(1.6)	(22,933)	(1.3)	(11,719)	(1.4)	(11,007)	(1.5)
Profit before income tax	**179,763**	**12.8**	**188,531**	**12.5**	**255,102**	**14.3**	**127,282**	**15.2**	**26,040**	**3.5**
Income tax expenses	(32,340)	(2.3)	(36,346)	(2.4)	(46,761)	(2.6)	(22,175)	(2.6)	(6,191)	(0.8)
Profit for the year/period	**147,423**	**10.5**	**152,185**	**10.1**	**208,341**	**11.7**	**105,107**	**12.6**	**19,849**	**2.7**
Profit attributable to:										
Owners of the Company	140,329	10.0	150,959	10.0	193,475	10.9	96,947	11.6	15,123	2.1
Non-controlling interests	7,094	0.5	1,226	0.1	14,866	0.8	8,160	1.0	4,726	0.6
	147,423	10.5	152,185	10.1	208,341	11.7	105,107	12.6	19,849	2.7

NON-HKFRS MEASURE

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use non-HKFRS measure, namely, adjusted profit for the year or period, as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that such non-HKFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that such measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted profit may not be comparable to similarly titled measures presented by other companies. The use of such non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted profit for the year or period as profit for the year or period by adding back share-based compensation expenses and [**REDACTED**] expenses. Share-based payment expenses are non-cash expenses arising from share awards granted to certain general management personnel and employees and do not result in cash outflow. [**REDACTED**] expenses 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 investors with a complete and fair understanding of our core operating results and financial performance, so that they can assess our underlying core performance undistorted. The following table reconciles our net profit for the year or period presented to the most directly comparable financial measure calculated and presented under HKFRS:

	Year ended December 31,			**Six Months ended June 30,**	
	2019	**2020**	**2021**	**2021**	**2022**
	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**] expenses	–	–	12,063	–	24,373
Adjusted profit (non-HKFRS measure) for the year/period	**149,015**	**159,173**	**226,694**	**107,959**	**50,641**

Revenue

Revenue by Service Offerings

We generate revenue primarily from three service offerings: (i) traditional beauty services to individual customers at our direct stores. Additionally, we earn franchise fees from our franchisees. In addition, to a much lesser extent, we generated revenue from sales of skincare products (including product sales to consumers in direct stores, and to franchisee stores and others); (ii) aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services); and (iii) subhealth assessment and intervention services. In addition, we earn cooperation fee in relation to subhealth assessment and intervention services. For details, see "Business — Our Services" in this document. 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	7.9	86,805	5.8	101,816	5.7	44,668	5.3	42,027	5.7
Subtotal	115,987	8.3	91,102	6.1	105,427	5.9	45,989	5.5	44,998	6.1
Aesthetic medical services[2]	464,586	33.1	564,076	37.5	673,025	37.8	338,634	40.5	275,556	37.5
Subhealth assessment and intervention services	64,353	4.6	91,110	6.1	60,931	3.4	28,984	3.5	30,720	4.2
Total	**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.

Revenue by Geographic Locations

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

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Tier-one cities[1]	829,035	59.0	854,725	56.9	1,036,208	58.2	493,605	59.0	362,478	49.4
New tier-one cities[2]	352,972	25.1	387,540	25.8	498,795	28.0	230,614	27.5	267,895	36.5
Other cities[3]	106,758	7.7	169,929	11.3	140,310	7.9	66,622	8.0	58,947	8.0
Franchisee and others	115,987	8.2	91,102	6.0	105,427	5.9	45,989	5.5	44,998	6.1
Total	**1,404,752**	**100.0**	**1,503,296**	**100.0**	**1,780,740**	**100.0**	**836,830**	**100.0**	**734,318**	**100.0**

Notes:

(1) Including Beijing, Shanghai, Guangzhou and Shenzhen. Our direct stores in tier-one cities during the Track Record Period were located in Beijing, Shanghai and Shenzhen.

(2) Including Chengdu, Hangzhou, Chongqing, Xi'an, Wuhan, Nanjing, Tianjin, Zhengzhou, Changsha, Ningbo and Qingdao.

(3) Including any other city that is not a tier-one city nor new tier-one city.

Revenue by Brands

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

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (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)	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**

Cost of Sales and Services

Our cost of sales and services primarily consists of (i) costs of products and consumables used, representing the costs of procuring skincare products, injection materials and other service consumables; (ii) staff costs, representing wages, benefits and bonuses for our business operation personnel; (iii) depreciation and amortization charges, which primarily include depreciation and amortization of lease premise and beauty equipment; and (iv) operation related expenses, which primarily include property management fees, rental expenses for short-term leases and costs for utilities. The following table sets forth a breakdown of our cost of sales and services by nature for the periods indicated:

	Year ended December 31,						Six Months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Products and consumables used	238,083	34.2	276,834	34.5	306,832	32.4	147,872	33.0	124,954	29.7
Staff costs	173,109	24.9	215,996	26.9	298,724	31.5	138,450	30.9	121,228	28.8
Depreciation and amortization charges	200,146	28.7	236,934	29.5	246,702	26.1	118,107	26.4	128,086	30.5
Operation related expenses	76,359	11.0	66,664	8.3	85,219	9.0	39,840	8.9	42,273	10.1
Others	8,714	1.2	6,844	0.8	9,477	1.0	3,610	0.8	3,748	0.9
Total	**696,411**	**100.0**	**803,272**	**100.0**	**946,954**	**100.0**	**447,879**	**100.0**	**420,289**	**100.0**

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less cost of sales and services. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our gross profit was RMB708.3 million, RMB700.0 million, RMB833.8 million, RMB389.0 million and RMB314.0 million, respectively. Gross profit margin represents our gross profit as a percentage of our revenue. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our gross profit margin was 50.4%, 46.6%, 46.8%, 46.5% and 42.8%, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by service offerings for the periods indicated:

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

During the Track Record Period, we experienced variation in our overall gross profit margin at 50.4%, 46.6%, 46.8%, 46.5% and 42.8%, in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Our traditional beauty services by direct stores represented one of the largest components of our service offerings. The gross profit margin of such services was fluctuated during the Track Record Period at 43.1%, 36.8%, 38.3%, 36.8% and 31.2% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, and such fluctuation led to the variation of our overall gross profit margin during the corresponding periods. For traditional beauty services by direct stores, we recorded a decrease in gross profit and gross profit margin from 2019 to 2020, primarily resulted from the outbreak of COVID-19 pandemic in 2020. In particular, our traditional beauty services were negatively affected due to the strict social distancing restrictions and temporary store closures in early 2020. Despite the decreased customer volume and store closures, we still continued to incur fixed costs such as staff costs, rental expenses and other operation related expenses, which consisted of over 50% of the total cost of sales and services. As a result, we recorded decreased gross profit margin in 2020. Similarly, we also recorded a decrease in gross profit and gross profit margin by brands of BeautyFarm (美麗田園) and Palaispa (貝黎詩). From 2020 to 2021, we recorded an increasing trend in gross profit and gross profit margin of traditional beauty services, primarily due to the continued business expansion. This increasing trend can also be reflected from our business growth in BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands. For example, we opened 13 BeautyFarm (美麗田園) stores and one Palaispa (貝黎詩) store in 2021. Correspondingly, our active members served as well as average spending per active member also increased. As a result, we achieved better operational efficiency resulting from economies of scale in relevant costs as well as depreciation and amortization charges in relation to rents. In 2022, due to the Recurrence, especially the strict lockdown in Shanghai, our traditional beauty services by direct stores as well as BeautyFarm (美麗田園) and Palaispa (貝黎詩) brands, recorded a decrease in gross profit and gross profit margin from the six months ended June 30, 2021 to the six months ended June 30, 2022. In general, during the Track Record Period, our gross profit margin of franchised stores and others was significantly higher than that of direct stores given that (i) gross profit margin of sales of products (being the major component of revenue from franchised stores and others) were higher than that of sales of services (being the major component of revenue from direct stores) as nominal fixed costs such as staff costs, rental expenses, and operation related expenses were incurred and (ii) no corresponding costs were incurred in generating the franchise fees.

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

For subhealth assessment and intervention services under Neology (研源), our gross profit and gross profit margin fluctuated over year or period. The gross profit margin of subhealth assessment and intervention services decreased from 2019 to 2020 because it generally takes time for store to ramp-up its performance, as a result, we incurred more costs as compared to revenue at initial stage of our subhealth assessment and intervention business. Our gross profit from subhealth assessment and intervention services decreased from 2020 to 2021, primarily due to the decrease in revenue resulted from less clients served. Since 2021, we also started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period. Our gross profit and gross profit margin from subhealth assessment and intervention services increased from the six months ended June 30, 2021 to the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. Going forward, we plan to further develop our traditional beauty services, including both direct stores and franchisee and others, continue to develop our aesthetic medical services and subhealth assessment and intervention services, and aim to provide a full-spectra of our beauty and health management services. For details of our results of operations, see "— Results of Operations" in this document.

Selling Expenses

Our selling expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses for our in-house sales and marketing team; (ii) promotion and marketing expenses, primarily include service fees paid to the third-party marketing service providers and celebrities to promote our brands and services; (iii) travelling and office expenses incurred by our in-house sales and marketing team; (iv) miscellaneous expenses incurred to purchase refreshments to customers; and (v) others, primarily represent miscellaneous costs in relation to general sales and marketing activities. In particular, it primarily includes information and IT related service fees incurred in relation to operation and maintenance of the online customer platform and service charges for storage of products. The following table sets forth a breakdown of our selling expenses for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Staff costs	163,377	161,566	173,338	75,171	74,769
Promotion and marketing related expenses	33,132	24,426	33,433	13,181	13,588
Travelling and office expenses	32,366	30,807	31,433	13,799	8,458
Miscellaneous expenses related to customer services	19,191	22,655	25,211	9,883	8,664
Depreciation and amortization	8,931	8,443	11,089	6,334	7,503
Others	20,976	22,624	24,960	11,970	7,254
Total	**277,973**	**270,521**	**299,464**	**130,338**	**120,236**

Research and Development Expenses

Our research and development expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses for our research and development staff and (ii) depreciation and amortization charges. The following table sets forth a breakdown of our research and development expenses for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Staff costs	8,109	9,274	16,156	6,831	13,892
Depreciation and amortization charges	1,033	2,396	1,873	905	1,067
Others	–	1,000	–	15	33
Total	**9,142**	**12,670**	**18,029**	**7,751**	**14,992**

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) staff costs, representing share-based compensation expenses, wages, benefits and bonuses for our general and administrative staff; (ii) depreciation and amortization charges in relation to our properties and equipment; (iii) consulting and management expenses incurred in relation to audit services, legal services, IT and back office management system as well as other evaluation services; (iv) **[REDACTED]** expenses; (v) reorganization costs. As part of the reorganization process before **[REDACTED]**, certain equity interests of our PRC operating entities were transferred from the equity holders of these PRC operating entities to a subsidiary under the Company and certain relevant expenses were incurred and borne by the Group. For details, see Note 9(a) to the Accountant's Report in Appendix I to this document; and (vi) others, primarily include fees in relation to general and administrative purposes, such as property management fees and utility fees for office space; traveling and office expenses for those administrative staff; and transaction fees charged by the banks. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Staff costs	199,682	195,620	226,873	118,740	122,732
[REDACTED] expenses	–	–	12,063	–	24,373
Depreciation and amortization	13,547	11,476	12,043	5,800	6,314
Consulting and management expenses	10,576	6,951	9,913	2,351	4,019
Reorganization costs	–	–	–	–	7,279
Others	13,570	10,010	11,558	4,944	2,543
Total	**237,375**	**224,057**	**272,450**	**131,835**	**167,260**

Other Income

Our other income primarily consists of (i) government grants, representing short-term subsidies received from the local governments in connection with the business development, rewards for financial and employment contribution as well as tax refund; and (ii) rental income primarily derived from our owned properties in Hainan province. The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Government grants	10,315	9,756	12,624	8,763	13,687
Rental income	495	632	6,405	3,166	3,153
Interest income derived from amount due from related parties	994	–	–	–	–
Others	4,181	1,258	1,698	409	675
Total	**15,985**	**11,646**	**20,727**	**12,338**	**17,515**

Other Expenses

In 2021, six months ended June 30, 2021 and 2022, we incurred direct costs in relation to the rental income of RMB3.5 million, RMB1.8 million and RMB1.7 million, respectively, due to the depreciation charges for the investment properties.

Other Gains — Net

Our other gains primarily include net fair value on financial assets at FVPL, reflecting investment gains from wealth management products we purchased. Our other losses primarily include (i) net losses on disposal of property, plant, and equipment in relation to our service supplies and medical and beauty equipment; (ii) net foreign exchange losses; and (iii) losses on disposal of the subsidiaries. The following table sets forth a breakdown of our other net gains for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net fair value gains on financial assets at FVPL	8,016	13,425	23,407	10,839	9,825
Net losses on disposal of property, plant and equipment	(2,158)	(3,882)	(2,640)	(188)	(470)
Net foreign exchange gains/(losses)	312	(460)	(225)	(129)	412
(Losses)/gains on disposal of the subsidiaries	(1,000)	310	–	–	–
Others	(2,402)	(2,505)	(2,290)	(562)	(308)
Total	**2,768**	**6,888**	**18,252**	**9,960**	**9,459**

Finance Costs — Net

Our finance costs include interest expenses on borrowings and interest expenses on lease liabilities. The following table sets forth a breakdown of our net finance costs for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Finance income					
Interest income on bank deposits	852	1,134	1,283	606	1,038
Finance costs					
Interest expenses					
– Interest charges on borrowings	(1,440)	(1,103)	(17)	(17)	–
– Interest charges for lease liabilities	(26,824)	(24,825)	(24,199)	(12,308)	(12,045)
	(28,264)	(25,928)	(24,216)	(12,325)	(12,045)
Finance costs — net	**(27,412)**	**(24,794)**	**(22,933)**	**(11,719)**	**(11,007)**

Income Tax Expenses

Our principal applicable taxes and tax rates are set forth as follows:

Mainland China

Our income tax expenses consist of current and deferred income taxes payable in the PRC by our subsidiaries. Income tax provision in respect of our operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year or period, based on existing legislation and interpretations and practices in respect thereof. In addition, certain subsidiary in the PRC is eligible for preferential tax treatments such as the reduced rate of 15% for high and new technology enterprise during the Track Record Period. Other than the eligible subsidiaries, our other PRC operating entities are subject to standard income tax rate of 25%.

During the Track Record Period, we incurred income tax expenses of RMB32.3 million, RMB36.3 million, RMB46.8 million, RMB22.2 million and RMB6.2 million in 2019, 2020, 2021, and the six months ended June 30, 2021 and 2022, representing an effective tax rate of 18.0%, 19.3%, 18.3%, 17.4% and 21.2%, respectively. Our effective income tax rate is calculated by dividing income tax expenses by profit before income tax.

Cayman Islands

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and, accordingly, are exempted from Cayman Islands income tax.

British Virgin Islands

Under the current laws of the British Virgin Islands, our subsidiaries incorporated in British Virgin Islands are not subject to income tax.

Hong Kong

The provision for Hong Kong Profits Tax is subject to Hong Kong's two-tiered profits tax regime, under which the tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million. The subsidiary in Hong Kong did not have any assessable profits during the Track Record Period.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared with Six Months Ended June 30, 2021

Revenue

Due to the Recurrence in 2022, especially the strict lockdown in Shanghai, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022.

Traditional Beauty Services — Direct Stores

Our revenue of traditional beauty services generated from direct stores decreased from RMB423.2 million for the six months ended June 30, 2021 to RMB383.0 million for the six months ended June 30, 2022, primarily attributable to the negative impact of Recurrence in 2022, which caused temporary store closures to certain of our direct stores in cities like Shanghai, Beijing and Changchun. To protect the health and well-being of our employees and clients and in support of the efforts to control the spread of the outbreak, we closed or reduced working hours of certain of our direct stores. As a result, the number of client visits decreased significantly in 2022. Since mid-June 2022, the majority of traditional beauty service direct stores in China have been operated under normal business hours.

Traditional Beauty Services — Franchise and Others

Our revenue of traditional beauty services generated from franchised stores and others decreased from RMB46.0 million for the six months ended June 30, 2021 to RMB45.0 million for the six months ended June 30, 2022. Despite the expansion of our franchised store network, our revenue from products sales to franchise stores and others decreased for the six months ended June 30, 2022 primarily due to the Recurrence as the delivery of products from warehouses to franchise stores and others were delayed.

Aesthetic Medical Services

Our revenue of aesthetic medical services decreased from RMB338.6 million for the six months ended June 30, 2021 to RMB275.6 million for the six months ended June 30, 2022, primarily attributable to the negative impact of Recurrence in 2022, which caused temporary store closures to certain of our CellCare (秀可兒) stores, particularly in cities such as Shanghai, Changchun, Beijing and Shenzhen. As a result, the number of client visits decreased significantly for the six months ended June 30, 2022.

Subhealth Assessment and Intervention Services

Our revenue from subhealth assessment and intervention services increased from RMB29.0 million for the six months ended June 30, 2021 to RMB30.7 million for the six months ended June 30, 2022, primarily due to continued business expansion of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai and Beijing due to the Recurrence.

Cost of Sales and Services

Our cost of sales and services decreased from RMB447.9 million for the six months ended June 30, 2021 to RMB420.3 million for the six months ended June 30, 2022, primarily due to the decreases in products and consumables used and staff costs, both of which were related to the reduces in services provided resulted from the Recurrence. In addition, due to the fluctuation of exchange rate, the costs of overseas procurement for products and consumables decreased during the corresponding period. These decreases were partially offset by increases in (i) depreciation and amortization charges and (ii) operation related expenses, both of which were generally fixed in nature and increased as a result of the expansion of our store network.

Gross Profit and Gross Profit Margin

Our gross profit decreased from RMB389.0 million for the six months ended June 30, 2021 to RMB314.0 million for the six months ended June 30, 2022; our overall gross profit margin decreased from 46.5% for the six months ended June 30, 2021 to 42.8% for the six months ended June 30, 2022. These decreases were primarily due to the negative impact of the Recurrence in 2022, which caused temporary store closures in several cities such as Beijing, Shanghai, Xi'an, Shenzhen, and Changchun. In particular, our overall gross profit margin decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily because many stores experienced temporary closures while other fixed costs (such as staff costs, rental expenses and other operation related expenses) continued to incur during the corresponding period.

Traditional Beauty Services — Direct Stores

Our gross profit of traditional beauty services generated from direct stores decreased from RMB155.9 million for the six months ended June 30, 2021 to RMB119.5 million for the six months ended June 30, 2022, primarily due to the negative impact of the Recurrence in 2022. In addition, our gross profit margin decreased from 36.8% for the six months ended June 30, 2021 to 31.2% for the six months ended June 30, 2022, primarily due to the similar reason. In particular, despite the temporary store closures, we still continued to incur fixed costs such as staff costs and rental expenses, which resulted in the decreased gross profit margin during the corresponding period.

Traditional Beauty Services — Franchise and Others

Our gross profit of traditional beauty services generated from franchised stores and others increased from RMB22.0 million for the six months ended June 30, 2021 to RMB28.7 million for the six months ended June 30, 2022, primarily due to the increased number of franchisee we engaged. Specifically, our franchised stores increased from 160 in 2021 to 175 for the six months ended June 30, 2022. Due to the similar reason, our gross profit margin of traditional beauty services generated from franchised stores and others increased from 47.8% for the six months ended June 30, 2021 to 63.8% for the six months ended June 30, 2022. In particular, no corresponding costs were incurred in generating the franchise fees, which resulted in a higher gross profit margin during the corresponding period.

Aesthetic Medical Services

Our gross profit from aesthetic medical services decreased from RMB201.5 million for the six months ended June 30, 2021 to RMB154.2 million for the six months ended June 30, 2022; our gross profit margin from aesthetic medical services decreased from 59.5% for the six months ended June 30, 2021 to 56.0% for the six months ended June 30, 2022. These decreases were primarily due to the negative impact of the Recurrence in 2022 as some of our CellCare (秀可兒) stores experienced store closures in cities such as Beijing and Shanghai.

Subhealth Assessment and Intervention Services

Our gross profit from subhealth assessment and intervention services increased from RMB9.6 million for the six months ended June 30, 2021 to RMB11.6 million for the six months ended June 30, 2022; our gross profit margin from subhealth assessment and intervention services increased from 33.0% for the six months ended June 30, 2021 to 37.7% for the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. In addition, we opened a new Neology (研源) healthcare center in Shenzhen in September 2021, which further enhance our financial performance in subhealth assessment and intervention services.

Selling Expenses

Our selling expenses decreased from RMB130.3 million for the six months ended June 30, 2021 to RMB120.2 million for the six months ended June 30, 2022, primarily due to decreases in staff costs, traveling and office expenses, miscellaneous expenses related to customer services, all of which were related to the impact of Recurrence.

Research and Development Expenses

Our research and development expenses increased from RMB7.8 million for the six months ended June 30, 2021 to RMB15.0 million for the six months ended June 30, 2022, primarily due to an increase in staff costs resulted from an increase in our research and development personnel as we continued our research and development efforts.

General and Administrative Expenses

Our general and administrative expenses increased from RMB131.8 million for the six months ended June 30, 2021 to RMB167.3 million for the six months ended June 30, 2022 primarily because we recorded RMB[**REDACTED**] expenses in relation to the [**REDACTED**] and the [**REDACTED**] in 2022.

Other Income

Our other income increased from RMB12.3 million for the six months ended June 30, 2021 to RMB17.5 million for the six months ended June 30, 2022, primarily due to an increase in government grants in relation to the VAT add-on deduction.

Other Gains — Net

Our other net gains remained relatively stable at RMB10.0 million and RMB9.5 million for the six months ended June 30, 2021 and 2022, respectively.

Finance Costs — Net

Our net finance costs remained relatively stable at RMB11.7 million and RMB11.0 million for the six months ended June 30, 2021 and 2022, respectively.

Income Tax Expenses

Our income tax expenses decreased significantly from RMB22.2 million for the six months ended June 30, 2021 to RMB6.2 million for the six months ended June 30, 2022, primarily due to the decrease in our profit before income tax resulted from the negative impact of the Recurrence in 2022.

Profit for the Period

As a result of the above, our net profit decreased significantly from 105.1 million for the six months ended June 30, 2021 to RMB19.8 million for the six months ended June 30, 2022.

Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

Revenue

Our revenue increased by 18.5% from RMB1,503.3 million in 2020 to RMB1,780.7 million in 2021.

Traditional Beauty Services — Direct Stores

Our revenue of traditional beauty services generated from direct stores increased from RMB757.0 million in 2020 to RMB941.4 million in 2021, primarily due to the expansion of direct network and same-store sales growth. In particular, the numbers of BeautyFarm (美麗田園) and Palaispa (貝黎詩) stores increased from 140 in 2020 to 154 in 2021, respectively. Corresponding with our continued sales and marketing efforts, the number of our active members for traditional beauty services increased significantly from 67,178 in 2020 to 75,548 in 2021 and the average spending per active member for traditional beauty services increased from RMB10,866 in 2020 to RMB11,843 in 2021. In addition, we have achieved robust same-store growth rate at 42.5% for newly-established stores, 20.3% for developing stores and 18.2% for matured stores during the corresponding period.

Traditional Beauty Services — Franchise and Others

Our revenue of traditional beauty services generated from franchised stores and others increased from RMB91.1 million in 2020 to RMB105.4 million in 2021, primarily due to the expansion of our franchised store network. The number of franchised stores increased from 152 in 2020 to 160 in 2021. Additionally, as consumables and equipment used in franchised stores are purchased from us, we also benefited from the rapid recovery of service volume delivered at our franchised stores.

Aesthetic Medical Services

Our revenue from aesthetic medical services increased from RMB564.1 million in 2020 to RMB673.0 million in 2021, primarily due to (i) improvement of same-store sales from RMB555,301 in 2020 to RMB658,935 in 2021 with a same-store growth rate of 18.7% from 2020 to 2021; (ii) an increase in number of clients and active members obtaining aesthetic medical services. In particular, the number of client visits increased from 45,051 in 2020 to 52,962 in 2021, while the number of active members served increased from 14,291 in 2020 to 16,896 in 2021; and (iii) an increase in store number and continued store renovation. In 2021, to improve customer experience at CellCare (秀可兒) stores, we opened an additional CellCare (秀可兒) store and continued to renovate existing CellCare (秀可兒) stores. Furthermore, our traditional beauty service stores, including both direct stores and franchised stores, were also increased during the corresponding period, which enlarged our potential customer base.

Subhealth Assessment and Intervention Services

Our revenue from subhealth assessment and intervention services decreased from RMB91.1 million in 2020 to RMB60.9 million in 2021, primarily due to less clients served. Such decrease was partially offset by the business growth of subhealth assessment and intervention services in the corresponding period.

Cost of Sales and Services

Our cost of sales and services increased from RMB803.3 million in 2020 to RMB947.0 million in 2021, primarily due to (i) an increase in staff costs as a result of increases in salary and employee headcount for store network expansion; (ii) an increase in products and consumables used reflecting our business growth and increased service offerings; (iii) an increase in operation related expenses as a result of increases in property management fees and costs of utilities; and (iv) an increase in depreciation and amortization charges due to the increase in our leased premises resulted from our store network expansion.

Gross Profit and Gross Profit Margin

Our gross profit increased from RMB700.0 million in 2020 to RMB833.8 million in 2021; our overall gross profit margin remained relatively stable at 46.6% in 2020 and 46.8% in 2021. The increase in our overall gross profit primarily reflected our robust growth in traditional beauty services, which consisted of a large portion of our revenue during the corresponding period. However, our gross profit margin remained stable primarily because a large portion of our revenue was attributable from traditional beauty services, which have a relatively lower gross profit margin compared to that of other services. In addition, the relatively high margin aesthetic medical services grew at a slower rate compared to traditional beauty services.

Traditional Beauty Services — Direct Stores

Our gross profit of traditional beauty services generated from direct stores increased from RMB278.5 million in 2020 to RMB360.6 million in 2021, and the gross margin improved from 36.8% in 2020 to 38.3% in 2021. The margin expansion was mostly contributed to the economies of scale as 66 out of 154 stores entered into the stage of matured stores as of December 31, 2021, as compared to 57 out of 140 as of December 31, 2020. Although we adopted various marketing activities in promoting our services at a discounted price with relatively lower margin in 2021, our gross profit and gross profit margin still maintained an increasing trend due to the economies of scale in relevant costs as well as depreciation and amortization charges in relation to rents. In particular, the number of client visits increased significantly from 790,376 in 2020 to 993,235 in 2021. We believe our marketing efforts will gradually convert the promotional effects into profitable revenue with long-term benefit to our operations and financial performance.

Traditional Beauty Services — Franchise and Others

Our gross profit of traditional beauty services generated from franchised stores and others increased from RMB52.6 million in 2020 to RMB60.6 million in 2021, and the gross profit margin remained relatively stable at 57.7% in 2020 and 57.5% in 2021. The increase in gross profit was primarily due to the increase in revenue in line with the franchisee business expansion.

Aesthetic Medical Services

Our gross profit from aesthetic medical services increased from RMB334.5 million in 2020 to RMB386.4 million in 2021, while our gross profit margin decreased from 59.3% in 2020 to 57.4% in 2021. The decrease in gross profit margin was primarily due to the evolvement in product portfolio with increased popularity and acceptance in hyaluronic acid injection services, which have a relatively lower margin.

Subhealth Assessment and Intervention Services

Our gross profit from subhealth assessment and intervention services decreased from RMB34.5 million in 2020 to RMB26.2 million in 2021, while our gross profit margin increased from 37.8% to 43.0%. The decrease in gross profit was primarily due to the decrease in revenue resulted from less clients served. In addition, we started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period.

Selling Expenses

Our selling expenses increased from RMB270.5 million in 2020 to RMB299.5 million in 2021, primarily due to (i) an increase in staff costs resulted from bonus increases and an increase in our marketing employee headcount to support our business expansion and (ii) an increase in marketing and promotion expenses, which was in line with our promotion strategies. In particular, due to emergence of live streaming marketing method, we have incurred more promotion and marketing related expenses in this regard.

Research and Development Expenses

Our research and development expenses increased from RMB12.7 million in 2020 to RMB18.0 million in 2021, primarily due to an increase in staff costs resulted from an increase in our research and development personnel.

General and Administrative Expenses

Our general and administrative expenses increased from RMB224.1 million in 2020 to RMB272.5 million in 2021, primarily because we recorded RMB12.1 million in relation to [**REDACTED**] expenses in 2021. In addition, such increase in general and administrative expenses was also attributable to an increase in staff costs which was in line with our business expansion. We hired more employee for general administrative purposes during the corresponding period.

Other Income

Our other income increased from RMB11.6 million in 2020 to RMB20.7 million in 2021, primarily due to (i) an increase in government grants from the local governments to support our business expansion and (ii) an increase in rental income derived from the owned properties in Hainan province.

Other Gains — Net

Our other net gains increased from RMB6.9 million in 2020 to RMB18.3 million in 2021 primarily due to the investment gains from wealth management products we purchased.

Finance Costs — Net

Our net finance costs decreased from RMB24.8 million in 2020 to RMB22.9 million in 2021, primarily due to a decrease in interest expenses on our bank borrowings as we repaid certain amount of our bank borrowings in 2021.

Income tax Expenses

Our income tax expenses increased from RMB36.3 million in 2020 to RMB46.8 million in 2021, reflecting the growth of our profit before taxation.

Profit for the Year

As a result of the above, our net profit increased from RMB152.2 million in 2020 to RMB208.3 million in 2021.

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Revenue

Despite the impact of the outbreak of COVID-19 pandemic in 2020, our total revenue still increased by 7.0% from RMB1,404.8 million in 2019 to RMB1,503.3 million in 2020.

Traditional Beauty Services — Direct Stores

Our revenue of traditional beauty services generated from our direct stores slightly decreased from RMB759.8 million in 2019 to RMB757.0 million in 2020. Strict social distancing restrictions and temporary store closures were imposed after the COVID-19 emerged in early 2020. This significantly restricted our ability to provide face-to-face services to our clients, and some customers remained hesitant to have in-person services such as spas or massages even after the restrictions were relaxed or lifted. These led to the decrease of revenue of traditional beauty services from our direct stores, though partially offset by our active efforts in promotion through live streaming during the highly restricted period. Due to the continued promotion efforts, as a result, our total visits and average spending started to increase since April 2020, in particular, our total number of client visits increased from 771,078 in 2019 to 790,376 in 2020 as the nationwide COVID-19 pandemic came under control in China.

Traditional Beauty Services — Franchise and Others

For the similar reasons above about our direct stores, our revenue of traditional beauty services generated from our franchised stores and others decreased from RMB116.0 million in 2019 to RMB91.1 million in 2020.

Aesthetic Medical Services

Our revenue from aesthetic medical services increased from RMB464.6 million in 2019 to RMB564.1 million in 2020. We managed to achieve rapid increase in our aesthetic medical services in 2020 in spite of the nationwide COVID-19 pandemic because of the low elasticity of customers' demand of such services — clients who did not receive the service during the COVID-19 restriction of mobility and social interaction would mostly seek the service once the restriction is lifted. The number of our active members increased from 12,683 in 2019 to 14,291 in 2020, and concurrently, the average spending per active member increased from RMB36,631 in 2019 to RMB39,471 in 2020.

Subhealth Assessment and Intervention Services

Our revenue from subhealth assessment and intervention services increased from RMB64.4 million in 2019 to RMB91.1 million in 2020. Such increase was mainly because we started to ramp up our subhealth assessment and intervention services around mid-year of 2019, correspondingly, the number of our active members for subhealth assessment and intervention services increased significantly from 1,895 in 2019 to 3,305 in 2020.

Cost of Sales and Services

Our cost of sales and services increased from RMB696.4 million in 2019 to RMB803.3 million in 2020, primarily due to (i) an increase in staff costs as a result of increases in salary and employee headcount for store network expansion; (ii) an increase in products and consumables used reflecting our business growth; and (iii) an increase in depreciation and amortization charges due to the increase in our leased premises resulted from our store network expansion.

Gross Profit and Gross Profit Margin

Our overall gross profit slightly decreased from RMB708.3 million in 2019 to RMB700.0 million in 2020; our overall gross profit margin decreased from 50.4% in 2019 to 46.6% in 2020. Such decreases in overall gross profit and gross profit margin were primarily due to the negative impact of the outbreak of COVID-19 pandemic in 2020, which offset our continued business growth across the three service offerings. In particular, our overall gross profit margin decreased from 2019 to 2020, primarily due to many of our service stores, including BeautyFarm (美麗田園), Palaispa (貝黎詩) and CellCare (秀可兒) stores, experienced temporary closures while other fixed costs (such as staff costs, rental expenses and other operation related expenses) continued to incur during the corresponding period.

Traditional Beauty Services — Direct Stores

Our gross profit of traditional beauty services generated from direct stores decreased from RMB327.4 million in 2019 to RMB278.5 million in 2020 as a result of the decrease in revenue. The gross profit margin also dropped accordingly from 43.1% to 36.8% as we started to offer service packages at discounted prices through online marketing channels during the COVID-19 pandemic to promote our services.

Traditional Beauty Services — Franchise and Others

Our gross profit of traditional beauty services generated from franchised stores and others decreased from RMB68.8 million in 2019 to RMB52.6 million in 2020, and the gross profit margin decreased from 59.3% to 57.7%. These decreases were primarily because we offered discounts to franchisees to support their business during this period.

Aesthetic Medical Services

Our gross profit from aesthetic medical services increased from RMB284.3 million in 2019 to RMB334.5 million in 2020 as a result of our growing revenue. The gross profit margin decreased from 61.2% in 2019 to 59.3% in 2020 because we offered an increasing number of injection services with discounts to attract new customers to try our services.

Subhealth Assessment and Intervention Services

Our gross profit from subhealth assessment and intervention services increased from RMB27.9 million in 2019 to RMB34.5 million in 2020, primarily due to the growth of our business. The gross profit margin decreased from 43.3% in 2019 to 37.8% in 2020 primarily because we incurred more costs (for example, staff costs in hiring relevant employees) as compared to the revenue at initial stage of our subhealth assessment and intervention business.

Selling Expenses

Our selling expenses decreased from RMB278.0 million in 2019 to RMB270.5 million in 2020, primarily due to (i) a decrease in staff costs due to the reduced social security contributions in connection with the temporary reduction and exemption of social security contributions during the COVID-19 pandemic in 2020 and (ii) a decrease marketing and promotion expenses as we had less offline marketing activities due to the impact of the COVID-19 pandemic.

Research and Development Expenses

Our research and development expenses increased from RMB9.1 million in 2019 to RMB12.7 million in 2020, primarily due to (i) an increase in staff costs resulted from the increase in employee headcount for research and development purposes and (ii) an increase in depreciation and amortization charges.

General and Administrative Expenses

Our general and administrative expenses decreased from RMB237.4 million in 2019 to RMB224.1 million in 2020, primarily due to (i) a decrease staff costs due the reduced social security contributions in connection with the temporary reduction and exemption of social security contributions during the COVID-19 pandemic in 2020; (ii) a decrease in consulting management fees due to the decreased legal, audit and IT related services for this period; and (iii) a decrease in depreciation and amortization due to the temporary reduction of rent payments during the COVID-19 pandemic.

Other Income

Our other income decreased from RMB16.0 million in 2019 to RMB11.6 million in 2020, primarily due to a decrease in government grants, which were occasional events and were varied from period to period. In addition, we did not incur interest income derived from amount due from related parties during the corresponding period.

Other Gains — Net

Our net other gains increased from RMB2.8 million in 2019 to RMB6.9 million in 2020 primarily due to the net fair value gains from the wealth management products we purchased.

Finance Costs — Net

Our net finance costs decreased from RMB27.4 million in 2019 to RMB24.8 million in 2020, primarily due to an increase in interest income on bank deposits.

Income Tax Expenses

Our income tax expenses increased from RMB32.3 million in 2019 to RMB36.3 million in 2020 in line with our growth profit.

Profit for the Year

As a result of the above, our net profit increased from RMB147.4 million in 2019 to RMB152.2 million in 2020.

DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	307,943	217,443	259,504	264,733
Investment properties	–	78,114	74,538	72,840
Right-of-use assets	551,527	466,467	451,795	464,145
Intangible assets	78,337	90,344	90,251	85,749
Goodwill	152,268	176,057	194,273	191,537
Prepayments, deposits and other receivables	42,327	46,823	55,279	55,361
Other non-current assets	3,887	5,074	7,103	5,317
Financial assets at fair value through other comprehensive income	182	179	74	–
Deferred income tax assets	26,265	35,950	35,015	47,294
Total non-current assets	**1,162,736**	**1,116,451**	**1,167,832**	**1,186,976**
Current assets				
Inventories	77,158	65,349	97,250	117,428
Trade receivables and notes receivables	30,316	36,699	31,316	34,380
Prepayments, deposits and other receivables	84,700	82,764	87,038	180,054
Financial assets at fair value through profit or loss	358,898	658,387	926,338	709,736
Restricted cash	–	–	10,254	10,270
Cash and cash equivalents	104,819	143,538	157,284	149,696
Total current assets	**655,891**	**986,737**	**1,309,480**	**1,201,564**
Total assets	**1,818,627**	**2,103,188**	**2,477,312**	**2,388,540**

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY				
Share capital	–	–	–	7
Treasury stock	–	–	–	–*
Share premium	–	–	–	84,358
Other reserves	(3,164)	7,452	65,439	(7,205)
Retained earnings	50,502	133,421	191,924	87,047
Equity attributable to owners of the Company	47,338	140,873	257,363	164,207
Non-controlling interests	5,417	(165)	5,173	16,251
Total equity	**52,755**	**140,708**	**262,536**	**180,458**
LIABILITIES				
Non-current liabilities				
Borrowings	6,370	–	–	–
Lease liabilities	430,100	367,943	352,279	358,328
Deferred tax liabilities	2,946	6,218	8,744	10,027
Total non-current liabilities	**439,416**	**374,161**	**361,023**	**368,355**
Current liabilities				
Trade payables	30,022	17,820	15,436	29,304
Other payables and accruals	164,680	162,924	215,062	158,451
Contract liabilities	914,730	1,155,062	1,347,685	1,387,521
Current tax liabilities	28,448	34,505	31,876	26,032
Borrowings	12,740	6,370	–	–
Lease liabilities	119,780	141,377	163,181	155,427
Other current liabilities	56,056	70,261	80,513	82,992
Total current liabilities	**1,326,456**	**1,588,319**	**1,853,753**	**1,839,727**
Total liabilities	**1,765,872**	**1,962,480**	**2,214,776**	**2,208,082**

* *Less than RMB1,000*

Property, Plant and Equipment

Our property, plant and equipment primarily consist of leasehold improvements, beauty equipment, buildings, construction in progress, electronic equipment and vehicles. Our property, plant and equipment decreased from RMB307.9 million as of December 31, 2019 to RMB217.4 million as of December 31, 2020 primarily due to the amounts transferred to investment properties. Our property, plant and equipment increased from RMB217.4 million as of December 31, 2020 to RMB259.5 million as of December 31, 2021, primarily due to the additions of leasehold improvements and beauty equipment in our newly opened stores, as well as the renovation of our existing stores. Our property, plant and equipment increased from RMB259.5 million as of December 31, 2021 to RMB264.7 million as of June 30, 2022, primarily due to leasehold improvements for our stores.

Right-of-Use Assets

Our right-of-use assets represent leases of our stores and office space. Our right-of-use decreased from RMB551.5 million as of December 31, 2019 to RMB466.5 million as of December 31, 2020 and further to RMB451.8 million as of December 31, 2021, primarily due to depreciation of right-of-use assets and amounts transferred to investment properties, partially offset by the new leases we entered into during the corresponding period. Our right-of-use increased from RMB451.8 million as of December 31, 2021 to RMB464.1 million as of June 30, 2022, primarily due to (i) the new leases we entered into, which was in line with our business expansion and (ii) the renewal of our existing leases.

Goodwill

We recognized goodwill during our acquisition of Palaispa (貝黎詩) stores as well as other stores. As of December 31, 2019, 2020, 2021 and June 30, 2022, our goodwill was RMB152.3 million, RMB176.1 million, RMB194.3 million, and RMB191.5 million. Such goodwill represents the excess of the aggregate of the consideration transferred, the non-controlling interests in these stores after our acquisition and the fair value of our equity interests in these stores held prior to our acquisition (if any) over the identifiable net assets of these stores.

We do not amortize goodwill, but we assess our goodwill for impairment at least on an annual basis, or more frequently if events or changes in circumstances indicate that our goodwill may be impaired. We allocate our goodwill to four separate cash-generating units for the purpose of impairment testing, namely Palaispa (貝黎詩) stores as well as stores in Shanghai, Chongqing and other cities. We assess the recoverable amount of each cash-generating unit with cash flow projections derived from the financial plans and budgets and the applicable pre-tax discount rates as determined by our senior management for the respective stores. Impairment losses on goodwill are recognized when the recoverable amount of any cash-generating unit is assessed to be less than its carrying value. We did not incur any impairment losses on goodwill during the Track Record Period. The following table sets forth key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill and intangible assets of customer relationships and trademark with infinite useful life as of December 31, 2019, 2020, 2021 and June 30, 2022.

We involved an independent qualified valuer to perform impairment test applying "value-in-use" method as at December 31, 2019, 2020, 2021 and June 30, 2022 by using the discounted cash flow model. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews. The forecast period is 5 years.

The recoverable amount of the CGUs based on the estimated value-in-use calculations was higher than the carrying amount at December 31, 2019, 2020, 2021 and June 30, 2022. Accordingly, no provision for impairment loss for goodwill, customer relationships and trademark is considered necessary.

	As of December 31,			**As of June 30,**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Palaispa				
Revenue next 5 year (% annual growth rate)	8.43	11.91	7.31	6.51
EBIT/Revenue (%)	5.61	7.69	8.22	8.49
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	12.45	12.45	13.50	14.60
Shanghai				
Revenue next 5 year (% annual growth rate)	8.59	8.85	8.19	10.65
EBIT/Revenue (%)	3.87	3.83	3.91	0.68
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	14.70	14.65	13.70	12.06
Chongqing				
Revenue next 5 year (% annual growth rate)	10.13	10.36	7.12	5.60
EBIT/Revenue (%)	11.23	11.35	11.57	11.77
Long term growth rate(%)	2	2	2	2
Pre-tax discount rate (%)	14.60	14.60	14.60	15.50
Other cities				
Revenue next 5 year (% annual growth rate)	8.7~18.94	9.83~17.52	6.49~12.19	6.00~10.35
EBIT/Revenue (%)	2.22~16.34	4.30~17.74	4.42~18.14	0.50~18.25
Long term growth rate (%)	2	2	2	2
Pre-tax discount rate (%)	12.77~14.15	12.80~14.76	13.65~17.85	12.90~17.85

Note: The pre-tax discount rate remained stable at 14.60% for the years ended December 31, 2019, 2020 and 2021 as there was no significant change on the main business and the risk profile of Chongqing CGU.

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determine values
Sales volume	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Sales price	Average annual growth rate over the five-year forecast period; based on current industry trends and including long term inflation forecasts for each territory.
EBIT/Revenue	Based on past performance and management's expectations for the future.
Long term growth rate	The basis used to determine the value assigned to the long-term growth rate is the forecast price indices during the budget year from where the main services are located.

Based on the result of the goodwill impairment testing, the estimated recoverable amount of the CGU far exceeded its carrying amount and the headroom was as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Palaispa	160,640	160,639	107,761	135,997
Shanghai	173,489	185,163	289,234	157,681
Chongqing	113,922	113,922	110,854	117,734
	448,051	459,724	507,849	411,412

The management performed the sensitivity analysis based on the abovementioned key assumptions that have been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased to as below:

	As of December 31,			As of June 30,
Palaispa:	**2019**	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Expected revenue next 5 year decreased by 3%	96,640	96,639	31,761	53,997
Expected EBIT/Revenue decreased by 3%	117,640	117,639	75,761	107,997
Pre-tax discount rate increased by 1%	149,640	149,639	93,761	115,997
Expected long term growth rate decreased by 1%	142,640	142,639	93,761	115,997

	As of December 31,			As of June 30,
Shanghai:	**2019**	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Expected revenue next 5 year decreased by 3%	11,749	121,163	74,234	21,681
Expected EBIT/Revenue decreased by 3%	109,489	45,163	204,234	95,681
Pre-tax discount rate increased by 1%	161,489	171,163	265,234	131,681
Expected long term growth rate decreased by 1%	164,489	175,163	257,234	113,681

	As of December 31,			As of June 30,
Chongqing:	**2019**	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Expected revenue next 5 year decreased by 3%	49,922	45,922	63,854	74,734
Expected EBIT/Revenue decreased by 3%	102,922	100,922	79,854	107,734
Pre-tax discount rate increased by 1%	104,922	104,922	99,854	111,734
Expected long term growth rate decreased by 1%	106,922	106,922	103,854	114,734

Our management believes that any reasonable possible change in any of the key assumptions would not cause the carrying amounts of the CGU to exceed its recoverable amount.

Our management concluded that no provision for impairment on the goodwill has to be recognized as of December 31, 2019, 2020, 2021 and June 30, 2022.

Inventories

Our inventories primarily consist of medical and beauty consumables, beauty equipment to be sold to franchisees, other supplies used in the provision of our services, as well as our stock of skincare and beauty products. The following table sets forth our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Body and skin care products and medical consumables	81,723	70,957	103,570	125,817
Less: Inventory provision	*(4,565)*	*(5,608)*	*(6,320)*	*(8,389)*
Total	**77,158**	**65,349**	**97,250**	**117,428**

Our inventories decreased from RMB77.2 million as of December 31, 2019 to RMB65.3 million as of December 31, 2020. Such decrease was primarily due to the COVID-19 pandemic, which resulted in the reduced production power from certain suppliers overseas. Our inventories increased from RMB65.3 million as of December 31, 2020 to RMB97.3 million as of December 31, 2021, primarily due to increased procurements of skincare and beauty products to support the business growth. In addition, as we gradually engaged with an increasing number of suppliers overseas, we strategically procured more inventories in anticipation of any impact of the COVID-19 pandemic going forward. Furthermore, our inventories further increased to RMB117.4 million as of June 30, 2022, primarily due to the impact of the Recurrence in 2022 as we experienced store closures with slower-than-expected inventory consumption during this period.

The following table sets forth the number of our inventory turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	**2020**	**2021**	**2022**
Inventory turnover days(1)	39.1	32.4	31.3	46.0

Note:

(1) Inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year/period, divided by the cost of sales and services for the same year/period, and multiplied by 365 days for 2019, 2020, 2021, and 180 days for the six months ended June 30, 2022.

Our inventory turnover days decreased from 39.1 days in 2019 to 32.4 days in 2020 and further to 31.3 days in 2021, primarily due to our improved inventory control driven by stable market demand for our services and products in line with the market recognition. In addition, we have adopted the ERP system and implemented a set of stringent inventory control measures since 2020. Our inventory turnover days increased to 46.0 days for the six months ended June 30, 2022, primarily due to the less inventory consumption during the Recurrence in 2022.

As of October 31, 2022, approximately RMB102.6 million, or 81.5%, of our inventories as of June 30, 2022 had been delivered or consumed. We believe we have made sufficient provisions based on our estimates on inventories consumption. In addition, we monitor the expiration dates closely through our logbook and physical inspection to ensure that no expired items will be used or sold. We experienced a slight delay in subsequent utilization of our inventories as supply chain and customer volume gradually recovered from the Recurrence in July and August of 2022.

Trade Receivables and Notes Receivables

During the Track Record Period, our trade receivables and notes receivables primarily included outstanding amounts due from our franchised stores resulted from inter-stores settlements between direct stores and franchised stores. In addition, our trade receivables and notes receivables also included payments made by customers but not yet received from shopping malls or third-party payment platforms during the Track Record Period. The following table sets forth the details of our trade receivables and notes receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Notes receivables	–	–	–	1,339
Trade receivables	32,655	38,959	33,809	35,152
Less: provision for impairment	*(2,339)*	*(2,260)*	*(2,493)*	*(2,111)*
Total trade receivables	**30,316**	**36,699**	**31,316**	**33,041**
Total trade receivables and notes receivables	**30,316**	**36,699**	**31,316**	**34,380**

Our trade receivables and notes receivables increased from RMB30.3 million as of December 31, 2019 to RMB36.7 million as of December 31, 2020, primarily due to the increased purchases from customers in line with our business expansion. Leveraging our expanding store network, it provides more opportunities for customers to enjoy our services at different stores in various locations, and therefore, our trade receivables and notes receivables due from our franchised stores increased gradually. Our trade receivables and notes receivables decreased from RMB36.7 million as of December 31, 2020 to RMB31.3 million as of December 31, 2021, primarily because we increased collection efforts for trade receivables and notes receivables from franchisees. Our trade receivables and notes receivables increased from RMB31.3 million as of December 31, 2021 to RMB34.4 million as of June 30, 2022, primarily due to the slower recoverability rate from franchised stores during the Recurrence in 2022.

The following table sets forth the number of our trade receivables turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	2020	2021	2022
Trade receivables turnover days(1)	10.4	8.1	7.0	7.9

Note:

(1) Trade receivables turnover days was calculated based on the average of opening and closing balance of trade receivables less allowance for impairment for the relevant year/period, divided by the revenue for the same year/period and multiplied by 365 days for 2019, 2020, 2021, and 180 days for the six months ended June 30, 2022.

Our trade receivables turnover days decreased steadily at 10.4 days, 8.1 days, and 7.0 days in 2019, 2020 and 2021, respectively. We have established a credit control department to minimize our credit risk and maintain control over our outstanding receivables. Our management regularly review the settlement situations of customers with relatively long credit periods. Our trade receivable turnover days increased slightly from 7.0 days in 2021 to 7.9 days for the six months ended June 30, 2022 as our customers generally settle a higher proportion of trade receivables by the end of the year. The following table sets forth an aging analysis of our trade receivables as of the dates indicated presented based on invoice date:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	30,393	34,870	31,888	32,433
Between 1 and 2 years	1,245	3,242	1,304	1,921
Between 2 and 3 years	660	506	380	457
Over 3 years	357	341	237	341
Total	**32,655**	**38,959**	**33,809**	**35,152**

As of October 31, 2022, approximately RMB27.9 million, or 79.4%, of our trade receivables as of June 30, 2022 had been settled. We do not believe there is any recoverability issue for our trade receivables and that adequate provisions had been made during the Track Record Period.

Prepayments, Deposits and Other Receivables

During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of (i) rental deposits for our leased properties; (ii) prepayments for procurement of inventories, including prepayments for medical and beauty consumables as well as other supplies in relation to our operation; and (iii) other current assets, primarily represented the deductible taxes and **[REDACTED]** expenses. The following table sets forth the details of our total prepayments, deposits, and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits (non-current)	43,492	46,865	55,360	55,401
Deposits (current)	11,398	16,867	12,394	13,738
Prepayments for procurement of inventories and operating expenses	44,324	29,080	36,494	50,509
Other current assets	12,088	22,848	18,162	12,555
Amounts due from related parties	6,950	–	10,849	86,248
Prepaid **[REDACTED]** expenses	–	–	3,792	4,311
Other receivables	11,529	14,578	5,670	13,209
Less: provision for impairment	*(2,754)*	*(651)*	*(404)*	*(556)*
Total	**127,027**	**129,587**	**142,317**	**235,415**

Our prepayments, deposits and other receivables increased from RMB127.0 million as of December 31, 2019 to RMB129.6 million as of December 31, 2020, primarily due to (i) an increase in rental deposits which was in line with our store network expansion and (ii) an increase in other current assets due to increases in deductible input VAT and prepayments of corporate income tax, both of which were resulted from the preferential tax treatment we received during the COVID-19 pandemic. Such increase was partially offset by a decrease in prepayments for procurement of inventories and operating expenses resulted from the decreased procurements of consumables. We regularly monitor and adjust our procurement of inventories depending on the adequacy of our supplies.

Our prepayments, deposits and other receivables increased from RMB129.6 million as of December 31, 2020 to RMB142.3 million as of December 31, 2021, primarily due to (i) an increase in prepayments for inventories and operating expenses in line with our business growth and (ii) an increase in other current assets resulted from prepayments of [**REDACTED**] expenses in 2021. Such increase was partially offset by a decrease in other receivables.

Our prepayments, deposits and other receivables increased from RMB142.3 million as of December 31, 2021 to RMB235.4 million as of June 30, 2022, primarily due to (i) an increase in amounts due from related parties resulted from reorganization, cooperation fee in relation to subhealth assessment and intervention services, and rental incomes. In particular, as of June 30, 2022, there was a significant increase in amounts due from related parties resulted from reorganization as the settlement of certain capital injection into the [**REDACTED**] Group took longer period of time to complete the transaction due to the Recurrence in 2022. For reorganization in details, see Note 1.2(c) to the Accountant's Report set out in Appendix I to this document. As of July 1, 2022, we had settled all amounts due from related parties, which were non-trade in nature. As of October 31, 2022, the remaining RMB7.2 million of amounts due from related parties out of June 30, 2022 were trade in nature. For details, see "— Related Party Transactions" in this section; (ii) an increase in other receivables primarily due to receivables due from certain employees for employee incentive platform and receivables for registered capital from certain shareholder; (iii) an increase in other current assets due to input VAT to be deducted and income tax withheld; (iv) an increase in deposits for property leases due to the store expansion; and (v) an increase in prepaid [**REDACTED**] expenses.

As of October 31, 2022, approximately RMB141.7 million, or 77.1%, of our current prepayments, deposits and other receivables as of June 30, 2022, which amounted to RMB183.7 million, had been settled.

Financial Assets at Fair Value Through Profit or Loss

During the Track Record Period, our financial assets at fair value through profit or loss represented wealth management products we purchased. As of December 31, 2019, 2020, 2021, and June 30, 2022, our financial assets at fair value through profit or loss was RMB358.9 million, RMB658.4 million, RMB926.3 million, and RMB709.7 million, respectively. The fluctuation of our financial assets at fair value through profit or loss at the end of each year was primarily due to (i) the different maturity of the various wealth management products we invested in; and (ii) the timing and amount we redeemed the wealth management products during each corresponding period. These wealth management products comprised short-term and low-risk financial products issued by commercial banks and state-owned trust companies in China. The expected rate of return ranged from 2.20% to 4.60% per annum. As of October 31, 2022, we had (i) wealth management products of approximately RMB210.2 million redeemable at any time, (ii) wealth management products of approximately RMB368.0 million redeemable before December 31, 2022, (iii) wealth management products of approximately RMB105.2 million which could not be redeemed before the expected maturity date, but would be redeemable at any time after April 2023, and (iv) wealth management products of approximately RMB50.2 million which could not be redeemed before the expected maturity date, but would be redeemable at any time after October 2023. The table below sets forth the details of wealth management products we purchased during the Track Record Period:

Type of investment	Total invested amount	Maturity Date	Interest rate
	(RMB'000)		
Wealth management products	110,000	84 days to 126 days	4.15%
Wealth management products	290,000	Due on demand	3.2%-4.0%
Wealth management products	250,000	Due on demand	3.5%-3.78%
Wealth management products	700,000	84 days to 364 days	4.1%-4.55%
Structured deposits	465,000	14 days to 90 days	2.6%-3.08%
Wealth management products	666,000	Due on demand	2.5%-2.7%
Wealth management products	752,200	Due on demand	2.42%-3.42%
Wealth management products	20,000	1 year	N/A(1)
Wealth management products	272,670	Due on demand	2.42%-3.0%
Wealth management products	323,920	Due on demand	2.2%-3.0%
	3,849,790		

Note:

(1) No fixed interest rate but principal is protected.

With our surplus cash on hand, we make investments in wealth management products. We have implemented a series of internal control policies and rules regarding investment in wealth management products to ensure that the purpose of investment is to preserve capital and liquidity until free cash is used in our primary business and operation. Our senior management team and the finance department are mainly responsible for making, implementing and supervising our investment decisions. We have formulated the standardized management protocol for funds management to monitor the process of our investment in wealth management products. From the perspective of cash management and risk control, we diversify our investment portfolios and have a designated finance team with relevant background in making such investments in accordance with our investment policy. Prior to making an investment, we ensure that there remains sufficient working capital for our business needs, operating activities and capital expenditures even after purchasing such wealth management products. When deciding whether to invest in the wealth management products, our designated finance team mainly considers (i) the issuer's credit and the historical performance and returns of its wealth management products, (ii) our overall risk exposure, risk concentration and risk diversification, and (iii) the wealth management product and the market performance and trend of such underlying assets. Upon the selection by the designated finance team, our finance department would initiate the internal approval procedures. In particular, our senior management team is responsible for the overall planning and approval of our investment in wealth management products. All investments need to be reviewed and approved by our key management personnel including our chief executive officer and chief financial officer. We adopt a prudent approach in selecting financial products. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, such as duration of the investment and the expected returns. To control our risk exposure, we have in the past sought, and may continue in the future to seek other low-risk financial products with terms no longer than twelve months.

Additionally, we mainly invest in financial products offered by reputable commercial banks and trust companies in China. After making an investment, we closely monitor its performance and fair value on a regular basis. We believe such investments are in our best interest since our primary objective of short-term investments in wealth management products is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation. In addition, we believe that our internal policies regarding investment in wealth management products and the related risk management mechanism are adequate. In addition, our investment in financial assets at fair value through profit or loss will also be subject to the compliance with Chapter 14 of the Listing Rules after [**REDACTED**].

Cash and Cash Equivalents

Our cash and cash equivalents primarily consisted of bank deposits. In 2019, 2020, 2021, and six months ended June 30, 2022, our cash and cash equivalents remained relatively stable at RMB104.8 million, RMB143.5 million, RMB157.3 million, and RMB149.7 million, which we consider a safe and liquid cash position to finance our daily operation.

Trade and Other Payables and Accruals

During the Track Record Period, our trade payables primarily consisted of payments we owed to suppliers for medical and beauty consumables. Our other payables and accruals primarily consist of (i) employee benefits payables, which represented salaries and bonuses to be paid to our employees; (ii) accrual expenses for property management fees and services fees; (iii) taxes payables, which represented the VAT payables and business taxes and surcharges; (iv) franchisee deposits; (v) **[REDACTED]** expenses payable in relation to the **[REDACTED]**; (vi) payables for acquisition of Shanxi Lixing and Xi'an Manzelian, two of our previous franchised stores, to expand our direct store network coverage. Such payables for acquisition of Shanxi Lixing and Xi'an Manzelian were settled in June 2021 and October 2021, respectively; and (vii) others, which primarily represented payables for renovation of our stores as well as software development. The following table sets forth the details of our trade and other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables — third parties	30,022	17,820	15,436	29,304
Employee benefits payables	65,438	80,441	105,943	70,435
Taxes payables	10,992	14,605	18,710	5,361
Franchisee deposits	14,432	16,054	17,994	19,154
[REDACTED] expenses payable	–	–	10,731	14,919
Accrued expenses	11,303	14,574	12,057	9,669
Constructions payables	10,784	10,156	10,425	11,233
Dividend payable	33,961	–	5,521	5,437
Acquisition payable	–	7,559	–	–
Others	17,770	19,535	33,681	22,243
Total other payables and accruals	164,680	162,924	215,062	158,451
Total	**194,702**	**180,744**	**230,498**	**187,755**

Our trade and other payables and accruals decreased from RMB194.7 million as of December 31, 2019 to RMB180.7 million as of December 31, 2020, primarily because we did not incur dividend payables in 2020. Such decrease in trade and other payables and accruals was offset by an increase in employee benefits payables, primarily due to the increase in employee headcount.

Our trade and other payables and accruals increased from RMB180.7 million as of December 31, 2020 to RMB230.5 million as of December 31, 2021, primarily due to (i) an increase in employee benefits payables resulted from the increased employee headcount and (ii) an increase in payables of **[REDACTED]** expenses.

Our trade and other payables and accruals decreased from RMB230.5 million as of December 31, 2021 to RMB187.8 million as of June 30, 2022, primarily due to (i) a decrease in tax payables as a result of the decreased profit resulted from the Recurrence; and (ii) a decrease in employee benefits payables as the bonus and compensation normally announced at the year end and paid in the following months.

Trade payables are usually paid within 30 days of the recognition. The credit term for finished goods such as medical and beauty consumables is usually within 30 days. The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	27,782	15,502	13,436	28,077
1 to 2 years	1,638	1,395	1,544	693
Over 2 years	602	923	456	534
Total	**30,022**	**17,820**	**15,436**	**29,304**

The following table sets forth the number of our trade payables turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	2020	2021	2022
Trade payables turnover days(1)	16.0	10.9	6.4	9.6

Note:

(1) Trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant year/period, divided by the cost of sales and services for the same year/period, and multiplied by 365 days for 2019, 2020 and 2021, and 180 days for the six months ended June 30, 2022.

Our trade payables turnover days were 16.0 days, 10.9 days, and 6.4 days in 2019, 2020 and 2021, respectively. Such decreases in turnover days were primarily due to our engagement with more suppliers overseas, who generally require us to pay the purchase price before the delivery of products. Our trade payables turnover days increased to 9.6 days for the six months ended June 30, 2022, primarily due to the Recurrence as we experienced slight delay in supply from certain suppliers. As the Recurrence gradually became contained, the delivery of products has resumed normal.

As of October 31, 2022, approximately RMB28.3 million, or 96.5%, of our trade payables as of June 30, 2022 had been settled.

Contract Liabilities

Our customers are required to pay our service fees in full before receiving our services. Depending on the needs of our clients and type of services, one-off service session, multiple service sessions of a single procedure or multiple types of procedures may be recommended to our clients to achieve desired results. Our clients may choose to pay before each service session or purchase prepaid package in respect of multiple service sessions and multiple types of procedures. For details, see "Business — Customers" in this document. Our contract liabilities represent payments received for prepaid packages while the underlying services or products have not been provided, which are subsequently recognized as revenue upon rendering of the relevant services. Our contract liabilities increased from RMB914.7 million as of December 31, 2019 to RMB1,155.1 million as of December 31, 2020, and further increased to RMB1,347.7 million as of December 31, 2021, primarily due to our business growth. Our contract liabilities increased to RMB1,387.5 million as of June 30, 2022, mainly due to the impact of the Recurrence in 2022 as we experienced store closures and decreased client visits during this period, as a result, less prepaid packages were consumed during this period. In addition, due to the increased online promotion activities during the Recurrence, we have a stable number of clients and members who are willing to purchase prepaid packages from us, therefore, our contract liabilities increased accordingly.

During our daily operation, our clients can utilize their prepaid packages across different direct stores. However, it is not permissible under our policy for clients to directly utilize their prepaid packages across different franchised stores. The majority of our clients will fully utilize the prepaid packages within two years. As our contract liabilities represent the payments in advance by our customers, such liabilities do not require incremental spending to fulfill our service obligations other than maintaining our facilities and service crew. In addition, given our long history, consistent service quality and trustworthy brand characteristics, we believe that we have sufficient resources to timely fulfill our obligation and perform the services under the prepaid packages sold.

The following table shows the movement of contract liabilities for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at the beginning of the year/period	835,188	914,730	1,155,062	1,347,685
Net forfeited income recognized during the year/period	(10,186)	(13,414)	(14,986)	(11,716)
Revenue recognized from provision of services and product sales to end customers and franchised stores	(1,303,579)	(1,383,266)	(1,661,980)	(679,071)
Payment to franchised stores due to the services provided to our members	(3,334)	(3,910)	(4,428)	(3,242)
Net increase in contract liabilities due to prepaid cards sold to end customers	1,311,282	1,557,397	1,745,292	699,267
Prepayments received from franchised stores and others	85,359	73,573	101,957	40,179
Acquisition of subsidiaries or business[(1)]	–	26,656	26,768	–
Disposal of subsidiaries or business[(2)]	–	(16,704)	–	(5,581)
Balance at the end of the year/period	914,730	1,155,062	1,347,685	1,387,521

Notes:

(1) Represented the acquisition of Shanxi Lixing, Chengdu Jinchun, Xi'an Manzelian and Wuhan Yingmier.

(2) Represented the disposal of Hainan Qiyan and one direct store of Beijing Palaispa.

The following table sets forth the revenue recognized during the Track Record Period relating to carried-forward contract liabilities:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue was recognized from contract liabilities at the beginning of the period	457,856	506,516	709,309	454,540

The following table sets forth an aging analysis of our contract liabilities based on the date of cash receipts from customers as of the date indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	597,312	784,440	927,581	910,388
1 to 2 years	132,153	171,060	199,284	254,947
2 to 3 years	37,313	55,391	74,764	86,910
Over 3 years	147,949	144,172	146,056	135,276
Total	914,727	1,155,062	1,347,685	1,387,521

Our contract liabilities aging within 3 years steadily increased over years, primarily due to our continued business expansion and increased client scale. In addition, our contract liabilities aging over 3 year remained relatively stable at RMB147.9 million, RMB144.2 million, RMB146.1 million, and RMB135.3 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

As of October 31, 2022, approximately RMB428.9 million or 30.9%, of our contract liabilities as of June 30, 2022 had been recognized as revenue.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal use of cash during the Track Record Period was for working capital purposes as well as store expansion and acquisition. Our main source of liquidity has been generated from cash flow from operation. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank facilities and net [**REDACTED**] from the [**REDACTED**]. As of June 30, 2022, we had cash and cash equivalents of RMB149.7 million. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document. As of October 31, 2022, we had RMB100.0 million unutilized bank facility.

Cash Flows

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

	Year ended December 31,			Six Months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash generated from operations before movements in working capital	422,976	470,765	542,081	264,439	188,935
Changes in working capital	72,716	246,469	173,781	16,791	(37,209)
Cash generated from operations	495,692	717,234	715,862	281,230	151,726
Income tax paid	(32,382)	(36,702)	(45,929)	(26,481)	(23,041)
Net cash flows generated from operating activities	463,310	680,532	669,933	254,749	128,685
Net cash flows generated from/(used in) investing activities	(256,732)	(368,943)	(385,347)	(93,048)	172,994
Net cash flows used in financing activities	(250,221)	(273,330)	(271,065)	(174,781)	(309,679)
Net (decrease)/increase in cash and cash equivalents	(43,643)	38,259	13,521	(13,080)	(8,000)
Cash and cash equivalents at beginning of the year/period	148,774	104,819	143,538	143,538	157,284
Exchange (losses)/gains on cash and cash equivalents	(312)	460	225	(167)	412
Cash and cash equivalents at end of the year/period	**104,819**	**143,538**	**157,284**	**130,291**	**149,696**

Net Cash Generated From Operating Activities

For the six months ended June 30, 2022, we generated RMB128.7 million in cash from operating activities. The difference with RMB26.0 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB91.9 million of depreciation of right-of-use asset and RMB43.1 million of depreciation of property, plant and equipment. In the same time, additional RMB37.2 million of cash was used for our working capital as our trade receivables, other receivables and prepayments decreased by RMB23.8 million and our trade payables, other payables and accruals decreased by RMB36.6 million, partially offset by an RMB45.4 million increase in contract liabilities.

In 2021, we generated RMB669.9 million in cash from operating activities. The difference with RMB255.1 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB174.1 million of depreciation of right-of-use asset and RMB85.5 million of depreciation of property, plant and equipment. In addition, a total of RMB173.8 million of cash was released from our working capital as our contract liabilities increased by RMB165.9 million and our trade payables, other payables and accruals increased by RMB59.2 million.

In 2020, we generated RMB680.5 million in cash from operating activities. The difference with RMB188.5 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB158.6 million of depreciation of right-of-use asset and RMB90.2 million of depreciation of property, plant and equipment. In addition, a total of RMB246.5 million of cash was released from our working capital as our contract liabilities increased by RMB236.6 million and our trade payables, other payables and accruals decreased by RMB13.5 million.

In 2019, we generated RMB463.3 million in cash from operating activities. The difference with RMB179.8 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB143.0 million of depreciation of right-of-use asset and RMB70.9 million of depreciation of property, plant and equipment. In addition, a total of RMB72.7 million of cash was released from our working capital as our contract liabilities increased by RMB84.4 million and our trade receivables, other receivables and prepayments decreased by RMB30.2 million.

Net Cash Generated From/(Used in) Investing Activities

For the six months ended June 30, 2022, our net cash generated from investing activities was RMB173.0 million, primarily as a result of proceeds from redemption of wealth management products of RMB743.0 million, partially offset by purchase of wealth management products of RMB516.6 million.

In 2021, our net cash used in investing activities was RMB385.3 million, primarily as a result of purchases of wealth management products of RMB1,614.5 million, and purchases of property, plant and equipment and other non-current assets of RMB133.2 million, partially offset by proceeds from redemption of wealth management products of RMB1,370.0 million.

In 2020, our net cash used in investing activities was RMB368.9 million, primarily as a result of purchases of wealth management products of RMB1,071.6 million, and purchases of property, plant and equipment and other non-current assets of RMB67.5 million, partially offset by proceeds from redemption of wealth management products of RMB785.5 million.

In 2019, our net cash used in investing activities was RMB256.7 million, primarily as a result of purchases of wealth management products of RMB647.1 million, and purchases of property, plant and equipment and other non-current assets of RMB107.8 million, partially offset by proceeds from redemption of wealth management products of RMB429.5 million, and repayment of borrowings from related parties of RMB71.9 million.

Net Cash Used in Financing Activities

For the six months ended June 30, 2022, our net cash used in financing activities was RMB309.7 million, primarily as a result of capital deduction from the owners of Shanghai Beauty Farm of RMB198.8 million, dividends paid of RMB122.6 million, and payment of lease liabilities of RMB118.0 million, partially offset by proceeds from the owners of Shanghai Beauty Farm of RMB119.2 million and capital injection from non-controlling interests of RMB7.7 million.

In 2021, our net cash used in financing activities was RMB271.1 million, primarily as a result of payment of lease liabilities of RMB177.5 million, dividends paid of RMB81.2 million, and transactions with non-controlling interests of RMB21.6 million, partially offset by consideration received for disposal of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme of RMB18.3 million.

In 2020, our net cash used in financing activities was RMB273.3 million, primarily as a result of payment of lease liabilities of RMB160.7 million, dividends paid of RMB106.8 million, and repayments of borrowings of RMB12.7 million, partially offset by transactions with non-controlling interests of RMB8.0 million.

In 2019, our net cash used in financing activities was RMB250.2 million, primarily as a result of payment of lease liabilities of RMB147.3 million, dividends paid of RMB80.7 million, consideration paid for disposal of the Shanghai Beauty Farm's shares through a limited partnership reserved for employee share scheme of RMB12.4 million, and repayments of borrowings of RMB11.8 million.

Net Current Assets/Liabilities

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current assets					
Inventories	77,158	65,349	97,250	117,428	143,892
Trade receivables and notes receivables	30,316	36,699	31,316	34,380	66,868
Prepayments, deposits and other receivables	84,700	82,764	87,038	180,054	128,010
Financial assets at fair value through profit or loss	358,898	658,387	926,338	709,736	733,613
Restricted cash	–	–	10,254	10,270	10,278
Cash and cash equivalents	104,819	143,538	157,284	149,696	269,261
Total current assets	**655,891**	**986,737**	**1,309,480**	**1,201,564**	**1,351,922**
Current liabilities					
Trade payables	30,022	17,820	15,436	29,304	19,744
Other payables and accruals	164,680	162,924	215,062	158,451	173,712
Contract liabilities	914,730	1,155,062	1,347,685	1,387,521	1,395,463
Current tax liabilities	28,448	34,505	31,876	26,032	45,310
Borrowings	12,740	6,370	–	–	–
Lease liabilities	119,780	141,377	163,181	155,427	155,671
Other current liabilities	56,056	70,261	80,513	82,992	83,312
Total current liabilities	**1,326,456**	**1,588,319**	**1,853,753**	**1,839,727**	**1,873,212**
Net current liabilities	**670,565**	**601,582**	**544,273**	**638,163**	**521,290**

We recorded an opening balance of accumulated losses of RMB16.8 million as of January 1, 2019, as our aggregate dividend declared and paid as of January 1, 2019 exceeded our accumulated net profits. Pursuant to the Reply of the Ministry of Finance on the Request for Instructions on the Issue of Profit Distribution in the Preparation of Consolidated Accounting Reports (財政部關於編製合併會計報告中利潤分配問題的請示的覆函) ("**Circular 7**"), for a company that prepares consolidated financial statements, its profit distribution is based on the distributable profits of its parent company, and the distributable profits in the consolidated financial statements cannot be used as the basis for the actual profit distribution. Although our aggregate dividend declared and paid as of January 1, 2019 exceeded our accumulated net profits, however, it did not exceed the distributable profits of the parent company, which complied with Circular 7. In addition, the historical distribution of dividends was approved by our Board and was in compliance with relevant applicable laws and regulations. The historical distribution of dividends was approved by our Board and was in compliance with relevant applicable laws and regulations. As a result of our net profit brought by our significant business growth, as of December 31, 2019, 2020, 2021 and June 30, 2022, we had retained earnings of RMB50.5 million, RMB133.4 million, RMB191.9 million and RMB87.0 million.

We had net current liabilities of RMB670.6 million, RMB601.6 million, RMB544.3 million, RMB638.2 million and RMB521.3 million as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, respectively. Our net current liability position was primarily attributable to (i) contract liabilities; (ii) lease liabilities in relation to the properties we leased for store operation, office premises and dormitories; and (iii) other payables and accruals, while our current assets increased at a relatively slower rate during the relevant period. In particular, the largest current liability item during the relative period was contract liabilities. They represent the payments in advance by our customers and it does not require incremental spending to fulfill our service obligations other than maintaining our facilities and service crew. In our operation, for every dollar we receive from our customers in prepayments, we will use a portion to fund our daily operation or save them in liquid form of financial assets at fair value through profit or loss, while we will also invest some in long-term assets to fund our growth, such as property, plant and equipment or right of use assets. This business model — reasonable and commonly seen in the industry — inevitably creates net current liability position, but we see no liquidity concern due to the reasons stated above as well as our strong ability to generate cash from operation. In particular, as of October 31, 2022, over 85% of our contract liabilities were pre-arranged and allocated to specific service programs as agreed by our clients.

Although we had net current liabilities during the Track Record Period, taking into account the financial resources available to us, including cash flow from operating activities and the estimated net **[REDACTED]** from the **[REDACTED]**, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document. Additionally, we plan to continue improving our liquidity position in the following aspects:

- *Cash flow generated from operations.* Our net cash from operating activities experienced robust growth during the Track Record Period. And we had net cash flow generated from operating activities in the amount of RMB495.7 million, RMB717.2 million, RMB715.9 million, RMB281.2 million and RMB151.7 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. As we optimize our service portfolio and cost structure, increase sales of higher-margin services, and continue to grow our business, we expect to generate a steady inflow of cash from operations in the foreseeable future, which will be applied to our working capital.

- *Bank loans and facilities.* Historically, we have been able to obtain our bank borrowings if needed. We do not foresee any impediment in continuing to do so in the future. In addition, if we obtain bank loans and facilities in the future, we plan to negotiate with banks to restructure our bank borrowings by obtaining better terms of loans and take systematic steps to restructure the composition of our short-term and long-term borrowings, such as refinancing certain portion of our short-term bank borrowings with long-term bank borrowings. As of October 31, 2022, we had RMB100.0 million unutilized bank facility.

- [**REDACTED**] *from the* [**REDACTED**]. We expect to receive [**REDACTED**] from the [**REDACTED**] of approximately HK$[**REDACTED**].

- *Stringent cash management.* We closely monitor and manage our cash position and cash requirements to ensure that we have sufficient working capital for our operations. Our finance department is responsible for managing our working capital and the collection of our receivables and payables settlement. We review our cash position and cash requirements on a weekly basis to determine the usage and allocation of cash in our operations, optimize our capital structure and meet our working capital needs. Based on our weekly cash requirements, we will manage our receivables and payables settlement schedule. We also prepare cash flow projection for the next 12 months on a monthly rolling basis to ensure our long-term funding.

INDEBTEDNESS

Our indebtedness mainly included bank borrowings and lease liabilities during the Track Record Period. Except as disclosed in the table below, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of October 31, 2022. After due and careful consideration, our Directors confirm that there had been no material adverse change in our indebtedness since October 31, 2022 and up to the Latest Practicable Date. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current					
Borrowings	12,740	6,370	–	–	–
Lease liabilities	119,780	141,377	163,181	155,427	155,671
Non-current					
Borrowings	6,370	–	–	–	–
Lease liabilities	430,100	367,943	352,279	358,328	355,803
Total	**568,990**	**515,690**	**515,460**	**513,755**	**511,474**

Borrowings

Our bank loans and other borrowings during the Track Record Period were primarily used for acquisition of Palaispa Beijing. During the Track Record Period, our bank loans bore interest at a rate equivalent to 5.46% per year. For more details, see Note 29 to the Accountant's Report in Appendix I to this document. As of October 31, 2022, we had nil bank loans and other borrowings.

Our Directors confirm that we have not defaulted in the repayment of the bank loans and other borrowings during the Track Record Period. Our Directors have confirmed that, as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up the Latest Practicable Date, to the best knowledge of our Directors, we did not experience any difficulty in obtaining bank loans.

Lease Liabilities

The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current	119,780	141,377	163,181	155,427	155,671
Non-current	430,100	367,943	352,279	358,328	355,803
Total	**549,880**	**509,320**	**515,460**	**513,755**	**511,474**

Our lease liabilities amounted to RMB549.9 million, RMB509.3 million, RMB515.5 million, RMB513.8 million and RMB511.5 million as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, respectively, which were primarily in relation to the properties we leased for our store operation, office premises and dormitories. We recognize a lease liability with respect to all leases, except for short-term leases and leases of low value assets.

CAPITAL EXPENDITURES

We regularly incur capital expenditures to expand our operations, upgrade our facilities and increase our operating efficiency. Our capital expenditures represented payment for purchases of property, plant and equipment, intangible assets and leasehold improvement during the Track Record Period. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we incurred capital expenditure of RMB107.8 million, RMB67.5 million, RMB133.2 million, RMB49.8 million and RMB51.1 million, respectively.

CONTRACTUAL OBLIGATIONS

Capital Commitments

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had capital commitments of RMB17.3 million, RMB17.4 million, RMB21.6 million and RMB23.7 million, respectively, primarily in connection with our leasehold improvement.

Lease Commitments

We entered into short-term leases for store operation, office premises and office equipment. As of December 31, 2019, 2020, 2021 and June 30, 2022, the outstanding lease commitment relating to these premises was RMB3.2 million, RMB5.0 million, RMB6.7 million and RMB5.0 million, respectively.

CONTINGENT LIABILITIES

As of December 31, 2019, 2020, 2021 and June 30, 2022, we did not have any material contingent liabilities. We confirm that as of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios for the periods or as of the dates indicated:

	As of/For the Year ended December 31,			As of/For the Six Months ended June 30,
	2019	**2020**	**2021**	**2022**
Current ratio[(1)]	0.49	0.62	0.71	0.65
Gearing ratio[(2)]	0.36	0.05	–	–

Notes:

(1) Equals current assets divided by current liabilities as of the same date.

(2) Equals bank loans and other borrowings divided by total equity as of the same date.

Our current ratio increased from 0.49 as of December 31, 2019 to 0.62 as of December 31, 2020, and further increased to 0.71 as of December 31, 2021. Our current ratio decreased from 0.71 as of December 31, 2021 to 0.65 as of June 30, 2022. Although our current ratio maintained below 1.0 during the Track Record Period, we do not see a liquidity issue. For details of our analysis, see "— Liquidity and Capital Resources — Net Current Assets/Liabilities" in this section.

Our gearing ratio decreased from 0.36 as of December 31, 2019 to 0.05 as of December 31, 2020, and further decreased to nil and nil as of December 31, 2021 and June 30, 2022, primarily due to the repayment of our borrowings. As compared to our total equity, our bank loans and other borrowings were relatively low as of the same dates.

RELATED PARTY TRANSACTIONS

Transactions With Related Parties

During the Track Record Period, we had entered into certain related party transactions, for details, see Note 34 to the Accountant's Report in Appendix I to this document. During the Track Record Period, our related party transactions mainly represented cooperation fee from subhealth assessment and intervention services. For details, see "Connected Transaction — Our Continuing Connected Transactions" in this document. The following table sets forth significant transactions between us and our related parties during the Track Record Period.

	Year ended December 31,			Six Months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cooperation fee in relation to subhealth assessment and intervention services	–	–	17,159	6,285	10,165
Rental income	–	–	5,592	2,814	2,936
Borrowings to a related party	5,000	–	–	–	–
Repayment of borrowings from related parties	71,915	6,950	–	–	–
Interest income from borrowings to related parties	994	–	–	–	–

Outstanding Balances With Related Parties

The following table sets forth outstanding balances with related parties during the Track Record Period.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from related parties – trade in nature	–	–	10,849	13,954
Amounts due from related parties – non-trade in nature	6,950	–	–	72,294
Total	**6,950**	**–**	**10,849**	**86,248**

Our Directors confirm that all material related party transactions during the Track Record Period were conducted on an arm's length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance. In July 2022, we settled all outstanding balances with related parties, which were non-trade in nature as of June 30, 2022.

MARKET RISK DISCLOSURE

We are exposed to a variety of financial risks and market risk, including market risk (including foreign exchange risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our Group's financial performance. For more details, see Note 3.1 to the Accountant's Report in Appendix I to this document.

Market Risks

Foreign Exchange Risk

We mainly operate in mainland China and are exposed to foreign exchange risk arising from currency exposures with respect to U.S. dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. We do not hedge against any fluctuation in foreign currency.

Credit Risk

We are exposed to credit risk in relation to its cash and cash equivalents, restricted cash, trade receivables and notes receivables, deposit and other receivables and financial assets at FVPL. The carrying amounts of these balances represent our maximum exposure to credit risk in relation to financial assets.

Credit Risk of Cash and Cash Equivalents, Restricted Cash and Financial Assets at FVPL

To manage the risk arising from credit risk of cash and cash equivalents, restricted cash and financial assets at FVPL, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

Credit Risk of Trade Receivables

The majority of our sales are settled through credit cards or e-pay applications against payment without credit terms. The remaining sales, such as to shopping malls, are settled with credit terms ranging from 14 days to 90 days. We apply the HKFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2019, 2020, 2021, and the six months ended June 30, 2021 and 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We have identified the GDP and the unemployment rate of PRC to be the most relevant factors, and accordingly adjust the historical loss rates based on expected changes in these factors.

We assess the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. The utilization of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties.

Credit Risk of Deposits and Other Receivables

Our Directors consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk, we compare risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. As of December 31, 2019, 2020, 2021, and June 30, 2022, there was no significant increase in credit risk since initial recognition of deposits and other receivables. For details of expected credit losses, see Note 25 to the Accountant's Report in Appendix I to this document.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Our objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to us. For more details, see Note 3.1 to the Accountant's Report in Appendix I to this document.

PROPERTY INTEREST AND PROPERTY VALUATION

JLL, an independent property valuer, has valued our selective property interests as of September 30, 2022. Particulars of these property interests are set out in Appendix IV to this document.

The table below sets out the reconciliation between the net book value of our selective property as of June 30, 2022 in the Accountant's Report set out in Appendix I to this document and the market value of our selective property as of September 30, 2022 in the Property Valuation Report set out in Appendix IV to this document.

	(RMB'000)
Net book value of our selective property as of June 30, 2022	72,840
Depreciation for the three months ended September 30, 2022	(847)
Net book value as of September 30, 2022	71,993
Valuation surplus as of September 30, 2022	20,697
Valuation as of September 30, 2022 as set out in Appendix IV to this document	92,690

DIVIDENDS

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, certain companies comprising the Group declared dividends of RMB77.1 million, RMB72.8 million, RMB86.7 million, RMB78.0 million and RMB122.5 million, respectively, to then shareholders.

At the shareholders' general meeting held on December 8, 2022, Shanghai Beauty Farm declared a dividend in the amounts of approximately RMB71.9 million. We 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. Our historical declarations of dividends may not reflect our future declarations of dividends.

Currently, we do not have a formal dividend policy or a fixed dividend payout ratio. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they deem appropriate. No dividend shall be declared or payable except out of our profits, retained earnings or share premium, subject to a solvency test being satisfied.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profits calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require enterprises incorporated in the PRC to set aside at least 10% of their after-tax profits based on the relevant accounting standards set out by the PRC regulatory authorities at the end of each year to fund certain statutory reserves until the statutory reserves reach and remain at or above 50% of the relevant PRC entity's registered capital. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

[REDACTED] EXPENSES

[REDACTED] expenses in relation to the **[REDACTED]** are estimated to be approximately RMB[**REDACTED**] (HK$[**REDACTED**]) (including **[REDACTED]** commission), at the **[REDACTED]** of HK$[**REDACTED**] per Share, and assuming the **[REDACTED]** is not exercised. Among the total **[REDACTED]** expenses, 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]**. As of June 30, 2022, we incurred a total of RMB[**REDACTED**] (HK$[**REDACTED**]) in **[REDACTED]** expenses, among which RMB[**REDACTED**] were recognized in our consolidated statement of comprehensive income, and RMB[**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]** expenses of approximately RMB[**REDACTED**] (HK$[**REDACTED**]) (including **[REDACTED]** commissions of approximately RMB **[REDACTED]** (HK$[**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$[**REDACTED**]) of which is attributable to the **[REDACTED]** of shares and will be deducted from equity upon **[REDACTED]**. Our **[REDACTED]** expenses as a percentage of gross **[REDACTED]** is **[REDACTED]**%, at an **[REDACTED]** of HK$[**REDACTED**] per Share, and assuming the **[REDACTED]** is not exercised. The **[REDACTED]** expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the **[REDACTED]** on the consolidated net tangible assets of our Group attributable to the owners of our Company as of June 30, 2022 as if the **[REDACTED]** had taken place on June 30, 2022. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of June 30, 2022 or as of any future dates following the **[REDACTED]**.

	Audited consolidated net tangible liabilities of our Group attributable to owners of our Company as of June 30, 2022	Estimated net [REDACTED] from the [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as of June 30, 2022	Unaudited pro forma adjusted consolidated net tangible assets per Share as of June 30, 2022	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	(59,242)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	(59,242)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

(1) The audited consolidated net tangible liabilities of our Group attributable to owners of our Company as of June 30, 2022 is extracted from the historical financial information contained in the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as of June 30, 2022 of approximately RMB164,207,000, with an adjustment for the intangible assets and goodwill attributable to the owners of our Company as of June 30, 2022 of approximately RMB68,039,000 and RMB155,410,000, respectively.

(2) The estimated net **[REDACTED]** from the **[REDACTED]** are based on **[REDACTED]** new Shares and the **[REDACTED]** range of HK$**[REDACTED]** per Share and HK$**[REDACTED]** per Share, respectively after deduction of the **[REDACTED]** fees and other related expenses paid/payable by our Company and excluding **[REDACTED]** expenses of approximately RMB**[REDACTED]** (equivalents to approximately HK$**[REDACTED]**) which has been accounted for in the consolidated statements of comprehensive income up to June 30, 2022. It does not take account of any Shares which may be issued upon the exercise of the **[REDACTED]**, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this document.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that **[REDACTED]** Shares were in issue assuming that the **[REDACTED]** and **[REDACTED]** had 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]**; and any Shares which may be issued upon the exercise of the **[REDACTED]**, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this document. However, had 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 unaudited pro forma 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[1.58] (equivalent to HK$**[REDACTED]**) (based on the **[REDACTED]** of HK$**[REDACTED]** per Share), respectively. This does not take into account any Shares which may fall to be issued upon the exercise of the **[REDACTED]** or any Shares that may be granted and issued or repurchased by our Company pursuant to the General Mandate.

(4) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.92429 to HK$1.00, as set out in "Information about this Document and the [**REDACTED**]" to this document. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or *vice versa*, at that rate.

(5) Saved as disclosed above, no adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to June 30, 2022.

(6) As of September 30, 2022, the Group's property interest was valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the full text of the valuation report with regard to such property interest is set out in Appendix IV to this document. The valuation surplus as of September 30, 2022, representing the excess of market value of the Group's property interest over its book value, was approximately RMB20,697,000 for the property. Such valuation surplus has not been included in the Group's consolidated financial statements as of June 30, 2022. The above adjustments do not take into account the valuation surplus. Had the property interest for the property been stated at such valuation, additional depreciation of RMB646,000 per annum would be charged against the consolidated statement of profit or loss.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this 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.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.