ANNUAL REPORT
2023

Raily Aesthetic Medicine International Holdings Limited
瑞麗醫美國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2135

CONTENTS

COMPANY PROFILE

Raily Aesthetic Medicine International Holdings Limited (the "Company", together with its subsidiaries "the Group") is a leading aesthetic medical service provider in Zhejiang Province, the People's Republic of China (the "PRC"). We principally engage in the provision of a broad range of aesthetic medical services to our clients to meet their different aesthetic and anti-aging objectives. We own and operate a network of five private for-profit aesthetic medical institutions, three of which are located in Zhejiang Province (Hangzhou City and Ruian City, Wenzhou), one is located in Anhui Province (Wuhu City) and one is located in Hainan Province (Qionghai City). The flagship institution, Hangzhou Raily Aesthetic Medical Hospital Co., Ltd. ("Hangzhou Raily") is our largest flagship institution, which has been rated as a "5A" aesthetic medical institution by the Chinese Association of Plastics and Aesthetics ("CAPA") in 2019 and has successfully received the "5A" rating as an aesthetic medical hospital again in December 2023. Successfully passing the reevaluation for the "5A" rating this time signifies that Hangzhou Raily ranks among the top specialised hospitals for aesthetic plastic surgery nationwide in terms of internal standardised management, patient safety, clinical technical capabilities, and medical service quality, etc. Our aesthetic medical services principally include (i) aesthetic surgery services, comprising aesthetic surgical procedures performed on various parts of the face or body; (ii) minimally-invasive aesthetic services, primarily comprising aesthetic injection procedures, whereby a drug is mixed with or proportional to a drug or a certain drug of a single unit is injected into the skin to perform the function of beauty or perplexing; and (iii) aesthetic dermatology services, primarily comprising various aesthetic energy-based procedures and photoelectric items, which can improve skin color, facial wrinkles, skin sagging and so on. At the same time, we also provide aesthetic medical management consulting services.

In addition, we also sell aesthetic medical equipment products. Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd. ("Jiumei Xinhe"), a subsidiary of the Group, mainly sells the Chuzhen facial implant, a brand of e-PTFE (expanded polytetrafluorethylene) facial implant from South Korea. Jiumei Xinhe is one of the three institutions which have been authorized by the PRC Medical Device Registration Department to import the e-PTFE (expanded polytetrafluorethylene) facial implant. Suzhou Yonglan Biotechnology Science and Technology Co., Ltd. ("Suzhou Yonglan"), a subsidiary of the Group, has completed the construction of a factory which is dedicated to manufacture subcutaneous injection products. With a plant area of approximately 4,660 sq.m., this factory located at No. 7 Building, Phase I of Maidi Medical Equipment Industry Innovation Port, No. 26 Jinxing Road, Zhangjiagang, Suzhou, PRC and is expected to have the manufacturing capacity in 2024. We have cooperated with the technical team of well-known universities and colleges in China to jointly research and develop new subcutaneous injection products. Currently, Suzhou Yonglan is in the stage of trial production of injection samples and is actively engaged in the preparation for the application for a Class III medical device registration certificate from the National Medical Products Administration ("NMPA"). We will continue to cooperate with well-known universities and colleges in China to build a research and development platform of aesthetic medical equipment products through joint planning, research and development and manufacturing, and consolidate the Group's position as a leading supplier of non-surgical aesthetic medical services and products in the upstream sector of the industry.

I. AESTHETIC MEDICAL SERVICE

1. AESTHETIC SURGERY SERVICES

Our aesthetic surgery services involve the provision of aesthetic surgical procedures to enhance the esthetic appearance of our clients. Aesthetic surgical procedures are invasive and are performed to alter the appearance of various parts of the face or body, such as eyes, nose, breast and facial shape and other parts of the body. Our main aesthetic surgical procedures include: eye surgery, improving the shape and appearance of the eyes or eyelids, and correcting eyelid deformities, e.g., double eyelid surgery, canthi correction, eye bag shaping and ptosis correction; rhinoplasty, changing the shape of the nose, and/or modifying the outer shape of the nose by implanting a prosthesis or cartilage extracted from other parts of the body; breast surgery, enlarging or reducing breasts, lifting sagging breasts or changing the shape of the breasts; lipoplasty/fat transfer, removing excess fat tissue from specific parts of the body which, at the request of clients, may or may not be further processed and then injected into other specific parts of the body; and linear shaping, implanting bio-protein lines under the skin at different parts of the body to promote skin blood circulation and to stimulate collagen proliferation to achieve the effects of lifting and firming of specific parts of the skin and sculpting body contours.

2. MINIMALLY-INVASIVE AESTHETIC SERVICES

Our minimally-invasive aesthetic services are the provision of minimally-invasive procedures involving minimal penetration into the body tissue with no surgical incisions and short recovery period. Such procedures primarily comprise injection of botulinum toxin type A and dermal fillers (such as hyaluronic acid and collagen, etc.) into different parts of the body and face in order to reduce wrinkles and/or to achieve body or facial contouring. Our main minimally-invasive aesthetic procedures include: injection of botulinum toxin type A, injection of botulinum toxin type A drugs to facial, subcutaneous or intramuscular layer in order to reduce wrinkles; and injection of dermal fillers, injection of dermal fillers to facial, subcutaneous or periosteal layer in order to reduce wrinkles, lift sagging skin and restore volume under the skin, with more natural effect.

3. AESTHETIC DERMATOLOGY SERVICES

Our aesthetic dermatology services primarily comprise energy-based procedures performed with equipment that utilize various forms of energy such as laser, radiofrequency and intense pulsed light for various purposes such as acne and pigments removal, skin rejuvenation, whitening, skin lifting and tightening, and hair removal to stimulate collagen regeneration. We strive to provide safe and high quality aesthetic dermatology services with our energy-based devises. All of our major energy-based devises have been approved by the NMPA for their safety and effectiveness. In addition, we have implemented a number of safety protocols in relation to the use of the equipment, such as evaluating and assessing by our practitioners before deployment, providing operating brochures for our staff and implementing maintenance by our suppliers from time to time.

4. OTHER SERVICES

We also provide other aesthetic medical services which primarily consist of aesthetic dental services. We provide aesthetic dental services in Hangzhou Raily, which focuses on improving the appearance of a person's teeth. Our services include orthodontics, dental implant and dental whitening. The provision of aesthetic dental services allows us to provide our client a full range of aesthetic medical services. These services also facilitate cross-selling of our aesthetic medical services which we believe can improve clients' experience and increase clients' retention. Our aesthetic dental services are provided by qualified dentists. Beside aesthetic dental services, we also provide ancillary services such as anesthesiology services, nursing services for inpatients and physical examination services, being some of the key stages in the process of our aesthetic medical services. Generally, we provide anesthesiology services for all of our aesthetic surgical procedures.

II. AESTHETIC MEDICAL MANAGEMENT CONSULTING SERVICES

Leveraging our years of experience in managing aesthetic medical institutions and expertise in sales and marketing of aesthetic medical services, we also provide aesthetic medical management consulting services which include consultation and guidance on online promotional content and operational consulting for aesthetic medical WeChat mini-programmes. We have developed an online promotion platform and collaborated with various major online platforms.

III. SALES OF AESTHETIC MEDICAL EQUIPMENT PRODUCTS

We have entered the field of selling upstream medical equipment in the aesthetic medical industry and are gradually researching and developing and producing new products. We engage in the sales of Chuzhen facial implant, a brand of e-PTFE facial implant imported from South Korea, and other surgical implants and aesthetic medical skincare products. In the future, with the completion of the Suzhou Yonglan project and the implementation of research and development, we will be more inclined to the sales of subcutaneous injection products, such as collagen and hyaluronic acid fillers (Type III), and we will conduct market research on these products and set up a new sales network.

Chuzhen e-PTFE (expanded polytetrafluoroethylene) facial implant is rich in fluorinated ethylene propylene (FEP), with greater strength and good support, is easy to sculpt, anti-deformation, and can be shaped into a perfect realistic nose. When the material needs to be taken out, it only needs to do "blunt peeling", and it can be taken out completely immediately, which is very convenient and will not cause damage. The histiocytes only grow into 1mm, and the material will not become hard after the Chuzhen product is used. The gap of the Chuzhen material is 60 microns, the porosity is larger, tissues and blood vessels are easier to invade and grow, and the Chunzhen material has the advantages of quick recovery, no displacement and better stability. Chuzhen e-PTFE facial implant is available in two hardness series with nearly 100 types of molded bulk and block sizes namely (i) Chuzhen reinforced type: the hardness is close to that of cartilage, and it is used for filling bony tissues such as nose bridge, chin, zygomatic, temporal or orbit. Its hand feel is realistic and natural; (ii) Chuzhen soft type: it feels like soft tissue, and is used for filling soft tissues such as forehead, nasolabial groove or deep wrinkles.

Our "潤色護膚品集合店" is an aesthetic medical skincare products sales platform. Based on the principle of customer first and with the help of a team of senior skin experts, we have selected domestic and foreign aesthetic medical skincare products which are more effective, and have simpler and milder ingredients that can be used safely. This sales platform can meet the diverse skincare needs of the customers ranging from skincare for post aesthetic medical treatments or for daily skincare. Moreover, it has been authorized by many domestic and foreign brands. From product selection to user services, 潤色護膚品集合店 is dedicated to satisfy the needs of the customers. Customers are able to buy and collect our products at our shops or through online sales coupled with express post.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Fu Haishu *(Chairman)*
Mr. Song Jianliang *(Chief Executive Officer)*
Mr. Wang Ying

Independent Non-executive Directors

Mr. Cao Dequan
Mr. Liu Teng
Ms. Yang Xiaofen

AUTHORIZED REPRESENTATIVES

Mr. Fu Haishu
Mr. Chan Oi Fat

COMPANY SECRETARY

Mr. Chan Oi Fat

AUDIT COMMITTEE

Mr. Liu Teng *(Chairman)*
Mr. Cao Dequan
Ms. Yang Xiaofen

NOMINATION COMMITTEE

Mr. Fu Haishu *(Chairman)*
Mr. Cao Dequan
Ms. Yang Xiaofen

REMUNERATION COMMITTEE

Mr. Cao Dequan *(Chairman)*
Mr. Fu Haishu
Mr. Liu Teng

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HONG KONG LEGAL ADVISER

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Hangzhou, Yuhang Sub-branch
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Hangzhou City
PRC

STOCK CODE

2135

INVESTOR RELATIONS

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COMPANY'S WEBSITE

http://www.raily.com

MILESTONES

Major events

01 In April 2023, Hainan Bellafill Outpatient was granted a medical practice licence and officially commenced operation as the Group's fifth medical institution

02 In September 2023, the Group commenced the renovation and expansion of the aesthetic dental service room of Hangzhou Raily, with the operating area expected to increase to approximately 1,400 sq.m.

03 In October 2023, the Group entered into a strategic cooperation with the Hainan Boao Lecheng International Medical Tourism Pilot Zone Administration to build an aesthetic medical training centre

04 In November 2023, Suzhou Yonglan's plant in Zhangjiagang, Suzhou started sample production and testing of the first subcutaneous injection products

05 In December 2023, Hangzhou Raily was awarded the Vice President Unit by the Hangzhou Association of Plastics and Aesthetics and the Advanced Unit of Party Building by the Association of Aesthetic Medical Industry of Zhejiang Province

06 In December 2023, Hangzhou Raily was successfully rated as a "5A" aesthetic medical hospital again in the "5A" rating reevaluation by the Chinese Association of Plastics and Aesthetics ("CAPA")

CHAIRMAN'S STATEMENT

Dear Shareholders:

The aesthetic medical industry is an emerging industry that combines both medical and consumption attributes. In recent years, with the continuous improvement of economic conditions, the maturing of medical technologies, and the increasing social acceptance of aesthetic medical services, the aesthetic medical industry has experienced rapid development. According to a research report published by Frost & Sullivan (an American business consulting firm), the aesthetic medical service market in China has a huge potential consumer base and is also the fastest growing market in the world with tremendous growth potential in the future. In terms of service revenue, the compound annual growth rate of the aesthetic medical service market in China reached 17.5% from 2017 to 2021, and it is expected to maintain a compound annual growth rate of 16.1% from 2021 to 2026, far outpacing the global market. With the tightening of China's regulation of the aesthetic medical industry, the policy environment is becoming clearer and the aesthetic medical industry is gradually standardised. China encourages and supports the development of the aesthetic medical industry in order to promote the high-quality development of the industry and ensure that consumers' rights are not jeopardised. The favourable policies will further promote the development of the aesthetic medical industry and attract more investment and innovation.

BUSINESS REVIEW

For the year ended 31 December 2023 (the "Year"), the Company recorded a total revenue of approximately RMB189.4 million, representing an increase of 15.1% when compared with the total revenue of RMB164.5 million in 2022. In 2023, the gross profit margin of the Group was approximately 37.8% (2022: 40.6%). Among them, the gross profit margin of the Dermatology Department was approximately 43.3% (2022: 43.8%). The net loss for the Year was approximately RMB37.8 million (2022: RMB20.2 million), and a net loss attributable to shareholders of the listed company was approximately RMB32.5 million (2022: RMB15.9 million). The increase in the Group's revenue and the continuous loss were mainly due to (i) during the first month of 2023, the business of medical institutions in Zhejiang and Anhui regions was still affected by the widespread outbreak of the COVID-19 pandemic, hence, it is difficult for most customers to visit the Group's institutions; (ii) in order to accelerate the Group's research and development and production of new medical equipment products, the Group increased its investment in the research and development activities of Suzhou Yonglan; (iii) increase in share option expenses; (iv) the impairment of goodwill of Hangzhou Bellafill Aesthetic Medical Out-patient Department Co., Ltd.*（杭州貝麗菲爾醫療美容門診部有限公司）("Hangzhou Bellafill"), Wuhu Raily Aesthetic Medical Out-patient Department Co., Ltd.*（蕪湖瑞麗醫療美容門診部有限公司）("Wuhu Raily") and Jiumei Xinhe; and (v) the loss of the investment in Biotrisse Aesthetic Medicine (Beijing) Trading Co., Ltd*（比奧瑞思醫美（北京）商貿有限公司）(the "Biotrisse").

Our medical institution has a team of experienced physicians. This medical team is led by highly esteemed experts who have been rewarded financially by the State Council of the PRC. We also invite well-known plastic surgery experts from home and abroad to provide medical consultations to our clients in our hospitals periodically. We always embrace internationally advanced medical technologies, strive to provide the most professional and leading aesthetic medical technology-based services for the beauty seekers, and take it as our responsibility to promote the continuous development of the aesthetic medical industry in China.

* *For identification purpose only*

Aesthetic medical procedures can be divided into surgical and non-surgical treatment procedures. Surgical procedures are designed to improve the appearance of the body through surgical treatments, mainly including medical cosmetic surgery. Non-surgical procedures mainly include injections, energy sources and other non-surgical treatments. Non-surgical procedures are more popular among consumers due to features such as lowered medical risk, less invasive, shortened recovery time and easier handling. In recent years, the growth rate of the non-surgical aesthetic medical market has exceeded the overall growth rate of the aesthetic medical market. According to Deloitte's China Medical Aesthetic Industry Outlook 2023, the market share of non-surgical aesthetic medicine accounted for 52% of the total aesthetic medicine market share in 2022 in terms of service revenue, and the market size surpassed that of surgical aesthetic medicine for two consecutive years. China's aesthetic medical industry as a whole has been affected by the consumption habits of non-surgical procedures, resulting in the industry's transformation from a traditional offline model to an online and offline sales environment that is greatly integrated with medical skincare and cosmetics, which also enables consumers to receive more convenient and comfortable services. More and more customers are inclined to take injectable treatments, with high expectations especially for long-lasting injectable products. We will also continue to increase our investment in research and development and strengthen our capabilities to develop and manufacture products, so as to gain control over the upstream product end of the industry.

DEVELOPMENT STRATEGY

(i) Transforming the Marketing Model of Traditional Aesthetic Medical Services

To adapt to market demands, we leverage online platforms to understand consumer psychology, publish information that interests them, evoke emotional resonance, open up their minds, and attract them to learn about and purchase our services and products. Additionally, we are increasing our investment in non-surgical aesthetic medical services, focusing on the use of high-tech instruments and injectable products such as lasers, radiofrequency, and injectable fillers to achieve faster, more convenient, and safer aesthetic results.

(ii) Accelerating the Progress of Research and Development of Aesthetic Medical Equipment Products and Replanning Development Blueprint

The domestic market for dermal fillers primarily comprises hyaluronic acid, poly-L-lactic acid and others (including collagen). Currently, the market share of collagen fillers is relatively small, the number of brands is far from saturated, and there is huge room for development, which is still a blue ocean in the aesthetic medical track. One of the main causes of skin aging is collagen depletion, and reactivating collagen production is one of the most effective ways to combat skin aging. We will accelerate Suzhou Yonglan's research and development of collagen skin injection products, aiming to capture the profit growth of this segment in the next two to three years.

(iii) Broadening the Sales Network for Aesthetic Medical Equipment Products to Integrate into the National Sales Framework

We will adopt a distributor model to gradually establish sales teams for the Group's medical equipment product, aiming to penetrate the upstream sales end of the aesthetic medical industry nationwide. By improving the sales and service chain in various aspects such as customer flow sources, corporate brand promotion and operational efficiency, we will enable one-stop satisfaction of multi-dimensional services such as resource promotion activities, business training, optimisation suggestions for product category structures, policy support, logistics, corporate management and operations, ground promotion coverage matching, and user guidance. This will foster stronger cooperative effectiveness and mutual stickiness among all parties involved.

FUTURE OUTLOOK

With the enhancement of people's aesthetic concepts and the strengthening of consumption power, the market size of the aesthetic medical industry has shown explosive growth. In the future, the aesthetic medical industry will be subject to more stringent legal regulation and supervision, which will be conducive to the healthy development of the industry. The "Internet Plus" model has penetrated all areas of the aesthetic medical industry. Through major e-commerce platforms, consumers can easily purchase a variety of beauty products and services, and the trend of online promotion of aesthetic medicine will become an important way of aesthetic medicine popularity. As people's pursuit of beauty continues to grow, the aesthetic medical industry will continue to innovate and provide more high-quality services. Meanwhile, with the advancement of technology and the development of society, the aesthetic medical industry will pay more attention to safety and personalisation, and is committed to creating better appearance and health for people.

Fu Haishu
Chairman

28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a leading aesthetic medical service provider in the Yangtze River Delta region of the PRC. We offer our clients a broad range of aesthetic medical services which include aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services. After years of development, our network of service institutions continues to expand. As of 31 December 2023, we own and operate a network of five private for-profit aesthetic medical service institutions in the PRC, three of which are located in Zhejiang Province, one is located in Anhui Province and one is located in Hainan Province. In addition, we provide aesthetic medical management consulting services and engage in sales of aesthetic medical equipment products. We have started the research and development and production of aesthetic medical equipment products.

The year 2023 was a year of opportunities and challenges for the aesthetic medical industry, which faced fierce competition as a result of the relaxation of the national pandemic prevention measures.

The following table sets forth the comparison of our revenue in 2022 and 2023:

	2023			2022		
	the first half RMB'000	**the second half RMB'000**	**Total RMB'000**	the first half RMB'000	the second half RMB'000	Total RMB'000
Aesthetic medical service	**85,139**	**89,771**	**174,910**	87,773	63,888	151,661
Sales of aesthetic medical equipment products	**12,441**	**2,033**	**14,474**	6,597	6,237	12,834
Aesthetic medical management consulting services	**–**	**–**	**–**	27	–	27
Total	**97,580**	**91,804**	**189,384**	94,397	70,125	164,522

For 2023, the Group's revenue was approximately RMB189.4 million, representing an increase of 15.1% as compared with the revenue of approximately RMB164.5 million for 2022. Our loss for the year attributable to owners of the parent and our loss for the year was approximately RMB32.5 million (2022: RMB15.9 million) and RMB37.8 million (2022: RMB20.2 million), respectively. Our basic and diluted loss per share attributable to ordinary equity holders of the parent was RMB7.77 cents (2022: RMB3.81 cents).

The increase in revenue and the continuous loss were mainly due to (a) during the first month of 2023, the business of medical institutions in Zhejiang and Anhui regions was still affected by the widespread outbreak of the COVID-19 pandemic, hence, it is difficult for most customers to visit the Group's institutions, which affected the results of the Group for the first half of 2023 and led to an increase in marketing costs; (b) in order to accelerate the Group's research and development and production of new medical equipment products, the Group increased its investment in the research and development activities of Suzhou Yonglan. In 2023, research and development expenses, factory construction expenses and research and development personnel's remuneration expenses of Suzhou Yonglan amounted to approximately RMB7.7 million (2022: RMB5.8 million). Such expenses had not yet been recovered by the economic benefits to be derived therefrom during 2023; (c) in 2023, the Group continued to record share option expenses of approximately RMB4.5 million (2022: approximately RMB3.8 million); (d) the impairment of goodwill of certain subsidiaries of the Group, including: (i) the impairment of goodwill and derecognition of deferred tax assets of Hangzhou Bellafill and Wuhu Raily in an aggregate amount of approximately RMB6.7 million and RMB5.1 million respectively, as affected by the intensified industry competition, both Hangzhou Bellafill and Wuhu Raily recorded loss for 2023; and (ii) the impairment of goodwill of Jiumei Xinhe in the amount of approximately RMB4.2 million, attributable to the fact that the downward trend in Jiumei Xinhe's performance for the year has not seen timely improvement; and (e) the loss of approximately RMB2.5 million of the investment in Biotrisse attributable to the fact that product launch cycle was delayed during the COVID-19 pandemic, resulting in the loss.

In 2023, although we incurred a significant loss, the number of active aesthetic medical clients increased from approximately 49,900 in 2022 to approximately 55,900 in 2023, representing an increase of approximately 12.0%; among them, the number of new clients was approximately 24,100 (2022: 18,400), accounting for 43.1% (2022: 36.9%) of the total number of aesthetic medical clients in 2023, representing an increase in the proportion of new clients. On the other hand, we have increased the marketing and promotion in non-surgical treatments with the advantages of fashion, speed, convenience, minimised risks, and shortest recovery period, which has improved the consumption level of clients. The average consumption per client was approximately RMB3,100, representing an increase of approximately 3.3% from the average consumption per client of approximately RMB3,000 in 2022.

In addition, we have gradually moved forward with the following development planning and strategic layout:

1. **Expand scale of RAILY urban flagship institutions in various regions, introduce high-quality and advanced technology, and update equipment and products**

   As consumption concepts evolve, non-surgical aesthetic medical procedures (also known as light aesthetic medicine) have gained widespread popularity among consumers due to their convenience and comfort. Characterised by the promise of "achieving beauty without surgery", these procedures include photoelectric procedures that primarily utilise laser cosmetic medical devices and photon generators, as well as injection procedures that rely on hyaluronic acid, collagen, microneedle, and botulinum toxin. Light aesthetic medicine is experiencing rapid growth within the aesthetic medical industry and is gradually becoming the mainstream trend in the market. While renovating and expanding our flagship institutions, the Group has also increased the investment in minimally-invasive aesthetic services and aesthetic dermatology services rooms.

   The following table sets forth the operating area of our aesthetic medical institutions as of 31 December 2023:

		After the renovation and expansion
Aesthetic medical institution	**Date of establishment**	**Approximate gross floor area (sq.m.)**
Hangzhou Raily	August 2013	7,800
Ruian Raily	March 2013	2,900
Hangzhou Bellafill	August 2008	1,000
Wuhu Raily	July 2015	2,900
Hainan Bellafill	June 2022	800
	Total	15,400

2. **Continuous application of digital management model**

   We will continue to use, transform and upgrade the digital medical service management systems to carry out a comprehensive marketing model which integrates precision marketing, digital marketing and thematic marketing. Leveraging digital methods to enhance the marketing capabilities and production efficiency of the medical institutions of the Group, thereby continuously improving customer experience, will be an important development direction for our aesthetic medical services segment. The digital operation enables us to better grasp market demands and consumer psychology, thereby improving our service quality and operational efficiency.

3. **Establish a new medical technology exchange platform and launch a medical technology experience and learning center**

   The Group is preparing to cooperate with Hainan Boao Lecheng International Medical Tourism Pilot Zone Administration to build an aesthetic training center. Both parties have completed the formal signing ceremony, and the training center has now been registered and established in the Market Supervision Administration of Hainan Province. The establishment of the training center can sufficiently mobilize the resources of the Chinese Association of Plastics and Aesthetics. Relying on the seminars and training sessions of various branches of the Chinese Association of Plastics and Aesthetics, and the standardized training of domestic and foreign high-tech medical technologies, the training center will attract doctors to gather in Hainan, and transform the operation direction from attracting patients and specially-appointed doctors to attracting medical specialists and customers across the country.

4. **Increase marketing efforts and enhance the diversity of online marketing**

   According to the needs and preferences of customers, we have added appropriate online platforms for promotion, and added diversified online marketing models in a timely manner, in order to attract more attention from target audience and maintain their interest. Diversified online marketing elements can build public praise and customer loyalty for our brand, improve our promotion effect, and increase brand exposure, thereby enhancing our brand image and recognition.

5. **Expand the market share of the Group's aesthetic medical equipment products**

   We will combine our existing sales experience to improve our sales network and continue to increase the market share of the Group' s aesthetic medical equipment products. We will also take advantage of the sales network of existing aesthetic medical equipment products to increase investment in the sales channels of new aesthetic medical equipment products, and seize market opportunities to accelerate the research and development of new aesthetic medical equipment products, paving the way for the expansion of the Group's product lines and improving the market share and product reputation of our overall aesthetic medical equipment products. We have observed that upstream suppliers in the aesthetic medical market are currently exhibiting stable development. Following the completion of the Suzhou Yonglan Plant, the Group will invest more resources in the research and development of other three types of aesthetic medical equipment products based on the development of the Company's existing sales network in recent years. It is expected that there will be new adjustments and planning for the entire sales team in the future.

6. **Establish a R&D and manufacturing platform for advanced aesthetic medical equipment products**

Suzhou Yonglan is mainly engaged in the production and sales of plastic collagen compound biomaterials for subcutaneous implantation system products. The Company is in the process of a share reorganisation and rights issue, and the net proceeds from the rights issue will be used for Suzhou Yonglan in proportion to the following purposes: (i) approximately 40% of the net proceeds will be used for the registration of aesthetic medical equipment products with the National Medical Products Administration ("NMPA"), including the clinical trials which are an integral part of the registration process; (ii) approximately 50% of the net proceeds will be used to purchase equipment and raw materials required in the manufacturing process of subcutaneous injection products; and (iii) approximately 10% of the net proceeds will be used for general working capital. We will vigorously develop the R&D and manufacturing capabilities of Suzhou Yonglan to build the Group into a supplier of non-surgical aesthetic medical products in the upstream of the industry.

The following is a summary of the consolidated statement of profit or loss and other comprehensive income:

	Year ended 31 December		
	2023	2022	Change
	RMB'000	RMB'000	%
Revenue	**189,384**	164,522	15.1
Gross profit	**71,493**	66,783	7.1
Loss before tax	**(35,010)**	(22,101)	58.4
Loss for the year	**(37,779)**	(20,247)	86.6
Attributable to:			
Owners of the parent	**(32,457)**	(15,911)	104.0
Non-controlling interests	**(5,322)**	(4,336)	22.7
	(37,779)	(20,247)	86.6

Note: The increase in loss for the year 2023 as compared to that for the year 2022 was mainly due to the fact that the share option expenses increased to approximately RMB4.5 million (2022: approximately RMB3.8 million), impairment of goodwill increased to approximately RMB11.9 million (2022: approximately RMB6.4 million), and the loss on long-term equity investments of approximately RMB2.5 million (2022: RMB0.1 million). If the impact of the above three non-recurring items is excluded, the net loss for the year 2023 was approximately RMB18.9 million (2022: RMB9.9 million).

PRINCIPAL RISKS AND UNCERTAINTIES

– Medical liability insurance. In 2023, we did not maintain medical liability insurance for our aesthetic medical institutions or our physicians (who include employee physicians and contract physicians) and medical staff, and may be subject to liability claims arising from physicians and medical staff at our aesthetic medical institutions.

– Performance of our physicians and other medical staff. Our physicians' and medical staff's treatment performance, communication and relationship with our clients are vital to our business and results of operations.

– Brand recognition. We need to maintain and enhance the brand image for a long time. Our corporate development and continued growth depend substantially on our brand image, market reputation and consumer trust.

– Adverse impact of the COVID-19 pandemic. The continuation or recurrence of the COVID-19 pandemic may have a certain adverse impact on the normal operation of the Group and the consumption of consumer in medical institutions.

– The development of the cities where medical institutions are located. If the average spending power of the population in the cities where our medical institutions are located, namely Hangzhou City, Ruian City, Wuhu City and Qionghai City, declines or the economic growth in these regions slow down, our operating results and profitability may be adversely affected. Changes in laws and regulations in these regions and the occurrence of any natural disasters, acts of God and epidemics may affect our operations and revenue.

– Research and Development (R&D) risk. The R&D and production of aesthetic medical equipment products that we have engaged need the investment of a large amount of R&D fees in the early stage. If the R&D of products fails, the investment in the early stage will not achieve the expected effect.

OUR CLIENTS

During 2023, all the aesthetic medical service clients were individual retail clients. Aesthetic medical institutions are clients for our aesthetic medical management consulting services whereas sales agencies and individual retail clients are customers of our aesthetic medical equipment products for sale.

The following table sets forth the approximate number of aesthetic medical procedures we provided, the approximate average spending per procedure, the approximate number of active clients and the approximate average spending per active client during the Year:

	Year ended 31 December	
	2023	2022
Aesthetic surgery services		
Number of procedures performed	**1,300**	1,800
Average spending per procedure[(1)] (RMB)	**5,400**	5,700
Number of active clients	**1,200**	1,600
Average spending per active client[(2)] (RMB)	**6,000**	6,500
Minimally-invasive aesthetic services		
Number of procedures performed	**39,500**	42,800
Average spending per procedure[(1)] (RMB)	**2,100**	1,700
Number of active clients	**15,300**	15,700
Average spending per active client[(2)] (RMB)	**5,400**	4,700
Aesthetic dermatology services		
Number of procedures performed[(3)]	**257,000**	227,500
Average spending per procedure[(1)] (RMB)	**300**	300
Number of active clients	**39,500**	32,600
Average spending per active client[(2)] (RMB)	**2,100**	2,000

Notes:

(1) We calculate the average spending per procedure by dividing the revenue of each type of aesthetic medical services by the relevant number of procedures performed during the Year.

(2) We calculate the average spending per active client by dividing the revenue of each type of aesthetic medical services by their relevant number of active clients during the Year.

(3) The number of procedures performed includes trial procedures, retouch procedures and procedures performed as promotional gifts.

OUR SUPPLIERS

During 2023, the supplies required in our operations primarily include implants, injection materials, pharmaceuticals, other medical consumables and aesthetic medical skincare products. Our five largest suppliers include suppliers of injection materials, implants and medical consumables. We have established good relationships with our five largest suppliers with an average term of over five years in 2023.

FINANCIAL REVIEW

Revenue

The following table sets forth our revenue by service offerings in 2023:

	Year ended 31 December				
	2023		2022		
	Revenue	**% of total revenue**	Revenue	% of total revenue	Change
	RMB'000	**%**	RMB'000	%	%
Aesthetic medical services	**174,910**	**92.4**	151,661	92.2	15.3
Aesthetic surgery services	**6,933**	**3.7**	10,394	6.3	(33.3)
Minimally-invasive aesthetic services	**82,958**	**43.8**	73,860	44.9	12.3
Aesthetic dermatology services	**83,292**	**44.0**	63,692	38.7	30.8
Others *(Note)*	**1,727**	**0.9**	3,715	2.3	(53.5)
Sales of aesthetic medical equipment products	**14,474**	**7.6**	12,834	7.8	12.8
Aesthetic medical management consulting services	**–**	**–**	27	–	–
	189,384	**100.0**	164,522	100.0	15.1

Note: Others primarily consist of aesthetic dental services and ancillary services such as anesthesiology services, nursing services for inpatients and physical examination services.

We generated revenue primarily from the provision of aesthetic medical services which principally include (i) aesthetic surgery services, which are invasive and are performed to alter the appearance of various parts of the face or body, such as eyes, nose, face and breast; (ii) minimally-invasive aesthetic services, which involve minimal penetration into the body tissue with no surgical incisions. Such procedures primarily comprise injection of botulinum toxin type A and dermal fillers into different parts of the body and face in order to reduce wrinkles and/or to achieve body and facial contouring; and (iii) aesthetic dermatology services, which primarily comprise aesthetic energy-based procedures performed with equipment that utilize various forms of energy such as laser, radiofrequency and intense pulsed light for various purposes such as acne and pigments removal, skin rejuvenation, skin lifting and tightening, and hair removal.

In 2023, our total revenue was approximately RMB189.4 million, representing an increase of 15.1% from approximately RMB164.5 million in 2022. For the Year, our gross revenue from the aesthetic medical services and the sales of aesthetic medical equipment products was approximately RMB174.9 million and RMB14.5 million respectively, representing an increase of 15.3% and 12.8% from approximately RMB151.7 million and RMB12.8 million of the gross revenue from aesthetic medical services and sales of aesthetic medical equipment products in 2022, respectively.

In 2023, our revenue from the minimally-invasive aesthetic services and the aesthetic dermatology services was approximately RMB83.0 million and RMB83.3 million respectively, representing an increase of 12.3% and 30.8% from approximately RMB73.9 million and RMB63.7 million of the revenue from minimally-invasive aesthetic services and the aesthetic dermatology services in 2022, respectively. In 2023, our revenue from the aesthetic surgery services was approximately RMB6.9 million, representing a decrease of 33.3% from approximately RMB10.4 million of the revenue from the aesthetic surgery services in 2022. The decrease in revenue was primarily due to our customers' preference for faster and safer minimally-invasive aesthetic services and aesthetic dermatology services as a result of technological developments and changes in consumer perception.

COST OF SALES

Our cost of sales mainly includes cost of supplies consumed and staff costs. In 2023, our cost of sales was approximately RMB117.9 million, representing an increase of about 20.6% from approximately RMB97.7 million of the cost of sales in 2022.

Our cost of sales by nature is as follows:

	Year ended 31 December				
	2023		2022		Change
	RMB'000	**%**	RMB'000	%	%
Cost of supplies consumed	**69,159**	**58.7**	55,018	56.3	25.7
Cost of inventories sold	**3,528**	**3.0**	2,008	2.1	75.7
Staff costs	**29,172**	**24.7**	28,056	28.7	4.0
Others	**16,032**	**13.6**	12,657	12.9	26.7
	117,891	**100.0**	97,739	100.0	20.6

Cost of supplies consumed was the largest component of cost of sales in 2023, which included the cost of our medical consumables which mainly represents implants and auxiliary materials used in our aesthetic surgery services, hyaluronic acid used in our minimally-invasive aesthetic services, laser consumables and auxiliary materials and aesthetic medical equipment products used in our aesthetic dermatology services. Cost of inventories sold is the main cost of the new business of aesthetic medical equipment products sales.

Staff costs were the second largest component of our cost of sales in 2023, which mainly represent salaries and bonuses paid to our physicians and medical staff. All our aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology procedures are performed by qualified physicians with necessary clinical work experience in accordance with the relevant PRC laws and regulations.

Other cost of sales mainly includes rental, depreciation and travelling expenses.

GROSS PROFIT

In 2023, our gross profit amounted to approximately RMB71.5 million, representing an increase of 7.1% from approximately RMB66.8 million of the gross profit in 2022. During 2023, our gross profit margin was approximately 37.8%, representing a decrease of 2.8 percentage points from approximately 40.6% of the gross profit margin in 2022, which is mainly due to our sales strategy of lowering the unit price of aesthetic medical service offerings adopted as a result of the intensified competition in the industry.

The following table sets forth our gross profit and gross profit margin by service offered in 2023:

	Year ended 31 December					
	2023		2022			
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %	Change in gross profit %	Change in gross profit margin %
Aesthetic medical services	**60,546**	**34.6**	56,933	37.5	6.3	(7.7)
Aesthetic surgery services	**(2,439)**	**(35.2)**	3,580	34.4	(168.1)	(202.3)
Minimally-invasive aesthetic services	**30,918**	**37.3**	29,490	39.9	4.8	(6.5)
Aesthetic dermatology services	**36,095**	**43.3**	27,904	43.8	29.4	(1.1)
Others *(Note)*	**(4,028)**	**(233.2)**	(4,041)	(108.8)	(0.3)	114.3
Sales of aesthetic medical equipment products	**10,947**	**75.6**	9,934	77.4	10.2	(2.3)
Aesthetic medical management consulting services	**–**	**–**	(84)	(311.1)	–	–
	71,493	**37.8**	66,783	40.6	7.1	(6.9)

Note: Others primarily consist of aesthetic dental services and ancillary services such as anesthesiology services, nursing services for inpatients and physical examination services.

In 2023, the total gross profit of the aesthetic medical services was approximately RMB60.5 million, representing an increase of approximately 6.3% from approximately RMB56.9 million of the total gross profit in 2022. In 2023, the gross profit of the sales business of aesthetic medical equipment products was approximately RMB10.9 million, representing an increase of approximately 10.2% from approximately RMB9.9 million of the gross profit of sales business of aesthetic medical equipment products in 2022.

OTHER INCOME AND GAINS

In 2023, our other income and gains amounted to approximately RMB8.8 million, representing an increase of approximately 8.7% from approximately RMB8.1 million in 2022. Such increase was mainly attributable to the increase in fair value gains on contingent consideration.

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses primarily comprised promotion and marketing expenses, and staff costs. In 2023, our selling and distribution expenses amounted to approximately RMB52.3 million, representing an increase of approximately 6.1% from approximately RMB49.3 million in 2022. The increase of expenses was mainly due to the increase in our online promotion expenses in the second half of the year.

In 2023, our online advertisements were generally displayed in the forms of videos, advertorials, banners on websites and applications on e-commerce online platforms. In addition, we promoted our brand and services through out-of-home advertising channels, such as billboards.

ADMINISTRATIVE EXPENSES

In 2023, our administrative expenses amounted to approximately RMB40.1 million, representing an increase of approximately RMB4.2 million from approximately RMB35.9 million in 2022. The increase of expenses was mainly due to the increase in the amount of rental expenses as a result of the expiration of COVID-19-related rent concessions and the increase in preliminary project costs at Suzhou Yonglan. Our administrative expenses primarily comprised professional fees, staff costs, rental related expenses, utility, depreciation expenses and other administrative office expenses.

FINANCE COSTS

In 2023, our finance cost amounted to approximately RMB2.8 million (2022: RMB2.8 million). Our finance costs primarily comprised interest on lease liabilities and interest on bank borrowings.

INCOME TAX EXPENSE/CREDIT

Our income tax expense/credit represented our total current income tax and deferred tax expense/credit under the relevant PRC income tax policies and regulations. We recorded income tax expense of approximately RMB2.8 million in 2023 (2022: an income tax credit of RMB1.9 million).

TOTAL COMPREHENSIVE LOSS FOR THE YEAR

We recorded a loss of approximately RMB37.8 million in 2023 (2022: loss of RMB20.2 million). Among them, three non-recurring items of the impairment of goodwill, loss on long-term equity investments and share option expense in total in 2023 amounted to approximately RMB18.9 million (2022: RMB10.3 million). Save for these factors, the adjusted net loss in 2023 were approximately RMB18.9 million (2022: the adjusted net loss of RMB9.9 million).

LIQUIDITY AND CAPITAL RESOURCES

Our cash and bank balance and time deposits amounted to approximately RMB39.8 million as at 31 December 2023 (31 December 2022: RMB78.8 million). Our net current liabilities were approximately RMB12.5 million as at 31 December 2023 (31 December 2022: net current assets RMB36.1 million). The decrease was mainly due to our external prepayment for an equity investment of RMB20.0 million during the Reporting Period and the increase in investment in Suzhou Yonglan. Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, cash generated from operating activities and available facilities of the Group, and the net proceeds from the issuance of ordinary shares relating to the initial public offering, and after diligent and careful investigation, the directors of the Company (the "Directors") are of the view that the Group has sufficient working capital required for the Group's operations at present. As at 31 December 2023, our Group has unutilised banking facilities of approximately RMB23.0 million (31 December 2022: RMB10.0 million) for working capital purposes.

LEASE LIABILITIES

As at 31 December 2023, the Group had lease liabilities of approximately RMB44.8 million (31 December 2022: RMB43.2 million).

COMMITMENTS

As at 31 December 2023, the Group had no contracted, but not provided for commitments (31 December 2022: RMB1.1 million).

CAPITAL EXPENDITURES

During 2023, the Group purchased long-term asset amounting to approximately RMB18.0 million (2022: RMB18.9 million).

INDEBTEDNESS

Interest-bearing Bank Borrowings

As at 31 December 2023, our Group had approximately RMB7.0 million outstanding interest-bearing bank borrowings (31 December 2022: RMB5.0 million), of which RMB7.0 million are at fixed interest rates (31 December 2022: RMB5.0 million).

As at 31 December 2022 and 2023, all the bank borrowings are repayable within one year and there was no other borrowing as at 31 December 2022 and 2023. All the borrowings are denominated in RMB.

Contingent Liabilities and Guarantees

As at 31 December 2023, our Group had no significant contingent liabilities and guarantees (31 December 2022: Nil).

PLEDGE OF ASSETS

As at 31 December 2023, the lease arrangements were secured by the Group's pledged deposits of RMB1.6 million (31 December 2022: lease arrangements secured by the Group's pledged deposits of RMB1.5 million).

GEARING RATIO

Gearing ratio is calculated by dividing total liabilities by total equity as at 31 December 2023 and multiplying the result by 100%. As at 31 December 2023, the Group had total debt of approximately RMB141.0 million (31 December 2022: RMB136.8 million) and the gearing ratio is about 106.3% (31 December 2022: 82.5%).

INTEREST RATE RISK

The Group has no significant interest rate risk as all of its borrowings bore interest at fixed rates.

EXCHANGE RATE FLUCTUATION RISK

As we have deposited with licensed banks certain financial assets that are denominated in Hong Kong dollars, we may be exposed to the risk of exchange rate fluctuations between Hong Kong dollars and Renminbi. The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure closely and will consider to adopt a proactive but prudent approach to minimize the relevant exposure when necessary.

Treasury Policies

The Group adopts a prudent approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the board of Directors (the "Board") closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 10 January 2023, the Group entered into a legally binding letter of intent (the "LOI") with Hangzhou Tianxin Aesthetic Medical Hospital Co., Ltd.*（杭州天鑫醫療美容醫院有限公司）(the "Target Company") and the shareholders of the Target Company. Pursuant to the LOI, the Group conditionally agreed to subscribe for an equity interest in the Target Company of up to 9.0% of the registered capital of the Target Company, at the consideration of up to RMB25.0 million. As at the date of this annual report, an earnest money of RMB20.0 million was paid to the Target Company.

On 2 January 2024, the Group entered into a supplemental agreement (the "Supplemental Agreement") to the LOI with the Target Company and the shareholders of the Target Company. Pursuant to the Supplemental Agreement, a fund (the "Raily Development Fund") shall be set up by the Group within six months from the date of the Supplemental Agreement to assume all the rights and obligations of the Group under the LOI, and the Group shall undertake to complete its due diligence on the Target Company and enter into the formal capital injection agreement (the "Formal Agreement") within three months from the date of establishment. Upon signing of the Formal Agreement, the earnest money of RMB20.0 million paid by the Group to the Target Company under the LOI might be applied to settle the equivalent amount of the capital injection by Raily Development Fund under the Formal Agreement.

For details, please refer to the Company's announcements dated 10 January 2023, 18 January 2023 and 2 January 2024.

Saved as disclosed in this annual report, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries, associates or joint ventures during the Year.

PROFIT GUARANTEE

Reference is made to the discloseable and share transaction announcement of the Company dated 20 August 2021 in relation to the acquisition of 90% equity interest in Jiumei Xinhe (the "Announcement") and the supplemental announcement of the Company dated 25 August 2021 in relation to the same matter. Unless otherwise specified, all capitalised terms used herein shall have the same meanings as those defined in the Announcement.

* *For identification purpose only*

Requirements of the Profit Guarantee

As disclosed in the Announcement, the Vendors had offered guarantees to the Purchaser that the Actual Net Profit of Jiumei Xinhe for each of the years ending 31 December 2022, 2023 and 2024 shall not be less than the following Guaranteed Net Profit:

Relevant Period(s)	Guaranteed Net Profit (RMB) for the Relevant Period(s)
1st Relevant Period	8,000,000
2nd Relevant Period	11,000,000
3rd Relevant Period	14,500,000
The Relevant Periods	33,500,000

If the Actual Net Profit for each of the Relevant Periods is lower than the Guaranteed Net Profit for that Relevant Period, the Consideration will be adjusted in accordance with the following formula (the "Adjustment Mechanism"):

$$\frac{\text{Actual Net Profit for the Relevant Period}}{\text{Guaranteed Net Profit for the Relevant Period}} \times \text{Consideration payable for the Relevant Period}$$

Financial performance of Jiumei Xinhe

Based on the audited financial statements of Jiumei Xinhe for the year ending 31 December 2022, the Actual Net Profit of Jiumei Xinhe for the year ending 31 December 2022 is less than the Guaranteed Net Profit for the 1st Relevant Period of approximately RMB4.9 million (the "Shortfall").

Reasons for the Shortfall

The Board has communicated with the Vendors and understands that the Vendors breach of the Profit Guarantee was primarily attributable to the COVID-19 pandemic which has adversely impacted the PRC economy. In particular, under the pandemic, Jiumei Xinhe faced difficulties in meeting the Profit Guarantee for 2022 due to the following reasons:

(a) the continual threat and resurgence of the COVID-19 pandemic and the resulting preventive measures (such as lockdowns, quarantines and travel restrictions) imposed in the PRC during 2022 had led to material impediments to the sales activities of Jiumei Xinhe, such as delays in product delivery and difficulties for sales personnel to meet and follow up with sales leads with a view to securing new orders; and

(b) as the majority of Jiumei Xinhe's customers are located in the PRC, the aforesaid preventive measures in the PRC which may have the same adverse impact on the business of these customers (including aesthetic medical institutions) has also affected the demand for and thus sales of the products provided by Jiumei Xinhe.

Supplemental agreement in relation to extension of Profit Guarantee period

Given that the reasons for the Shortfall are mainly attributable to the extraordinary and unexpected circumstances caused by the COVID-19 pandemic which are beyond the control of the Vendors, and in view of the business prospect of Jiumei Xinhe in light of the gradual relaxation of restrictive COVID-19 measures, the Group and the Vendors (who have remained in the core management team of Jiumei Xinhe) have agreed that Jiumei Xinhe may fulfill the outstanding Profit Guarantee requirement within a period of three months and the Board is of the view that there is no material adverse impact on the Group arising from the extension of the Profit Guarantee period for three months. Accordingly, the Company and the Vendors have entered into an agreement supplemental to the SP Agreement (the "Supplemental Agreement") on 10 March 2023 to extend the Profit Guarantee period (the "Extension"):

	Original period under the SP Agreement	Extended period under the Supplemental Agreement
1st Relevant Period	1/1/2022 to 31/12/2022	1/1/2022 to 31/3/2023
2nd Relevant Period	1/1/2023 to 31/12/2023	1/4/2023 to 31/3/2024
3rd Relevant Period	1/1/2024 to 31/12/2024	1/4/2024 to 31/3/2025
The Relevant Periods	1/1/2022 to 31/12/2024	1/1/2022 to 31/3/2025

The payment schedule of Post-Completion Considerations will therefore be deferred accordingly and thus no adjustment thereof in accordance with the Adjustment Mechanism has yet been made.

In the event the Actual Net Profit of Jiumei Xinhe for any of the extended Relevant Periods still fails to meet the Guaranteed Net Profit for that extended Relevant Period, the relevant Post-Completion Consideration may be adjusted in accordance with the Adjustment Mechanism.

Reasons for the Extension

Considering (i) that the reasons for the Shortfall are mainly attributable to the extraordinary and unexpected circumstances caused by the COVID-19 pandemic which are beyond the control of the Vendors; (ii) the business prospect of Jiumei Xinhe in light of the gradual relaxation of restrictive COVID-19 measures; (iii) that the Extension can serve as an incentive for the Vendors, who have remained in the core management team of Jiumei Xinhe, to commit more time and effort to improving the performance of Jiumei Xinhe; (iv) the relatively short period of extension of three months which will not materially affect the business development of the Group's aesthetic medical equipment product sales; and (v) that the obligation of the Group to pay the Post-Completion Considerations will also be deferred accordingly and still subject to fulfillment of the same amount of guaranteed profit and the Adjustment Mechanism, the Board considers that the Extension and the decision not to exercise the Adjustment Mechanism for the time being are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole. The Board will continue to review the performance of Jiumei Xinhe and take appropriate actions as and when necessary.

The first profit guarantee period in relation to Jiumei Xinhe has been extended from 31 December 2022 to 31 March 2023. Jiumei Xinhe has fulfilled the relevant profit guarantee for the extended period.

For details, please refer to the Company's announcements dated 20 August 2021, 25 August 2021 and 10 March 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report and in the prospectus of the Company dated 15 December 2020 (the "Prospectus"), the Group did not have plans for making material investments or acquiring capital assets as at 31 December 2023.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, we had 335 employees in the PRC (31 December 2022: 322).

	Number of Employees	
Function	**31 December 2023**	31 December 2022
Management	**6**	7
Physicians and medical staff	**124**	131
Sales, marketing, client service and other business staff	**167**	153
Finance and administration staff	**38**	31
Total	**335**	322

During the Year, our staff costs amounted to approximately RMB64.3 million, the share option expenses amounted to approximately RMB4.5 million, and the total staff costs amounted to approximately RMB68.8 million, representing an increase of RMB5.0 million as compared to the total staff costs of approximately RMB63.8 million in 2022, accounting for approximately 36.3% of the total revenue in 2023 (2022: 38.8%).

We believe that we provide our physicians and medical staff with competitive compensation packages, continued medical education opportunities and a professional work environment. We review the performance of our physicians and medical staff at least once a year. According to our internal control policy, the results of such reviews will later be taken into consideration in the determination of salary, bonus awards and promotion. The Human Resource Department at our headquarters maintains the license records of our physicians and medical staff and regularly reviews their profile to ensure compliance with relevant laws and regulations in the PRC. Our Directors' remuneration will be reviewed by our Remuneration Committee once a year to ensure that it is comparable to the market.

Remuneration of our employees is determined based on factors such as comparable market salaries, work performance, time investment and the individual responsibilities. The Company provides employees with relevant internal and/or external training from time to time. In addition to basic salaries, the Company also provides year-end bonuses to outstanding employees in order to attract and retain qualified employees, so that they can contribute to the Group.

The employees of the Group in PRC are required to participate in a central pension scheme operated by local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions vest fully once made and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

During the Year, there were no forfeited contributions (by the Group on behalf of employees who leave the pension scheme prior to vesting fully in such contributions) which has been utilised by the Group to reduce the existing level of contributions. At 31 December 2023, there were no forfeited contributions available to reduce the level of contributions to the pension schemes in future years.

USE OF PROCEEDS

The Company was successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 December 2020 (the "Listing"). The net proceeds from the Global Offering including exercise of over-allotment options were approximately HK$81.7 million (the "Net Proceeds"), which was based on the issuing price of HK$0.4 per share and the actual expenses related to the Listing. As at the date of this annual report, HK$12.2 million out of the Net Proceeds for organic growth remains unutilised, while other proceeds have been fully utilised.

The following table sets forth a summary of the utilization of the Net Proceeds as at 31 December 2023:

Purpose	Percentage to total amount	Planned use of net proceeds HK$'million	Actual use of proceeds up to 31 December 2023 HK$'million	Unutilised amount as at 31 December 2023 HK$'million	Expected timeline of full utilisation of the remaining proceeds
Expanding our aesthetic medical institutions network	**71.0%**	**58.0**	**45.8**	**12.2**	**31 December 2024**
– Renovation and expansion of existing aesthetic medical institutions	28.0%	22.9	22.9	–	
– Organic growth	28.0%	22.9	10.7	12.2	31 December 2024
– Strategic acquisitions	15.0%	12.2	12.2	–	
Acquire new aesthetic medical service equipment and treatment consumables to extend the spectrum of our treatment services offered in our current aesthetic medical institutions	**11.0%**	**9.0**	**9.0**	**–**	
Actively promote our brand	**8.0%**	**6.5**	**6.5**	**–**	
General working capital	**10.0%**	**8.2**	**8.2**	**–**	
Total	**100.0%**	**81.7**	**69.5**	**12.2**	

SUBSEQUENT EVENTS

On 2 January 2024, the Group entered into a supplemental agreement to the LOI with Hangzhou Tianxin Aesthetic Medical Hospital Co., Ltd.*（杭州天鑫醫療美容醫院有限公司）(the "Target Company") and the existing shareholders of the Target Company.

For details, please refer to the Company's announcements dated 10 January 2023, 18 January 2023 and 2 January 2024.

On 26 January 2024, the Group granted share options to certain eligible persons to subscribe for a total of 48,630,462 ordinary shares of US$0.01 each in the share capital of the Company, which represents approximately 2.33% of the Company's issued share capital at the date of grant.

For details, please refer to the Company's announcement dated 26 January 2024.

On 23 February 2024, the Group granted share options to certain eligible persons to subscribe for a total of 47,430,466 ordinary shares of US$0.01 each in the share capital of the Company, which represents approximately 2.27% of the Company's issued share capital at the date of grant.

For details, please refer to the Company's announcement dated 23 February 2024.

On 26 February 2024, the Board proposed to implement a share consolidation on the basis that every five (5) existing shares in the share capital of the Company be consolidated into one (1) consolidated share (the "Share Consolidation"). The Share Consolidation is conditional upon, among other things, the approval by the shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 15 March 2024 (the "EGM"). The Share Consolidation was approved by way of an ordinary resolution at the EGM. As all the conditions in respect of the Share Consolidation have been fulfilled, the Share Consolidation became effective on 19 March 2024.

For details, please refer to the Company's announcements dated 26 February 2024, 29 February 2024 and 15 March 2024 and the Company's circular dated 29 February 2024.

On 26 February 2024, the Board also proposed to raise gross proceeds of up to approximately HK$20.8 million before expenses, by way of a rights issue, by issuing up to 140,728,521 rights shares (the "Rights Shares") (assuming no further issue or repurchase of shares of the Company on or before 28 March 2024, the record date, other than the full exercise of the exercisable share options of the Company and all the Rights Shares will be taken up) at the subscription price of HK$0.148 per Rights Share on the basis of one (1) Rights Share for every three (3) consolidated shares held by the qualifying shareholders of the Company at the close of business on the record date (the "Rights Issue"). The Rights Issue is only available to the qualifying shareholders of the Company and will not be extended to the excluded shareholders (if any).

The net proceeds from the Rights Issue are estimated to be not more than approximately HK$19.4 million (assuming no further issue or repurchase of shares of the Company on or before the record date other than the full exercise of the exercisable share options of the Company and all the Rights Shares will be taken up). The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately HK$9.7 million, representing 50.0% of the net proceeds, will be used for the acquisition of equipment and raw materials necessary to initiate the manufacturing process; (ii) approximately HK$7.8 million, representing 40.0% of the net proceeds, will be used for the registration filing of aesthetic medical equipment products with the National Medical Products Administration, including clinical trials which are integral to the registration process; and (iii) approximately HK$1.9 million, representing 10.0% of the net proceeds, will be used for general working capital of the Group.

For details, please refer to the Company's announcement dated 26 February 2024.

* *For identification purpose only*

PROSPECTS

With the continuous advancement of technology and the growing market demand, the aesthetic medical industry is demonstrating robust development momentum, indicating a more prosperous and vibrant future for the medical aesthetics market. The Opinions on Developing the Silver Economy and Improving the Well-being of the Elderly (the "Opinions") issued by the General Office of the State Council in January 2024 also emphasized the importance of developing the anti-aging industry. The Opinions clearly pointed out that it is necessary to deepen the research on skin aging mechanisms, human aging models, and human hair health, etc., and strengthen the research and development and application of genetic technologies, regenerative medicine, and laser and radio frequency, etc. in the field of anti-aging, which provides strong policy support for the development of the anti-aging industry. Consumers are increasingly receptive to minimally-invasive medical aesthetics, with one of the main reasons being its short recovery period and immediate visible results. Among various minimally-invasive aesthetic medical projects, anti-aging services have emerged as a popular choice among consumers. We will also prioritize the development of non-surgical aesthetic medical service products, increase our investment in technology and scientific research, and introduce personalised and distinctive anti-aging aesthetic medical services and products.

DIVIDEND

The Board resolved not to declare any final dividend for 2023 (2022: Nil).

INVESTOR RELATIONS AND FINANCIAL JOURNALS

We highly support our investor relations activities. We have appointed a professional investor relations team to be responsible for investor relations affairs, to establish a communication bridge between the Company and investors, and to ensure that shareholders, investors, financial media and potential investors can maintain stable and smooth communications. We attach great importance to the opinions and feedback of investors on the Company, which helps us to better formulate the Company's development strategies to enhance shareholders' value.

In 2023, we organized an online public offering roadshow through the arrangement by the investor relations team, so that investors can have a deep and accurate understanding to the Company's business and ensure that the Company's shareholders have access to us the latest information. With the development of our business, we will continue to update and improve the investor relations system and strive to maintain a high level of investor relations.

Investors can access to the Company's website (http://www.raily.com) to obtain the Company's latest developments, or communicate with us via email investor.relationship@raily.com.

INFORMATION ABOUT SHARES

Company name	Raily Aesthetic Medicine International Holdings Limited（瑞麗醫美國際控股有限公司）
Place of listing	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	2135.HK
Listing date	28 December 2020
Whole board lot	10,000 shares
Number of issued shares	417,808,000 shares

FINANCIAL JOURNALS

The last day of the transfer of registration for 2024 annual general meeting	24 June 2024
Closure of register of members for 2024 annual general meeting	25 to 28 June 2024 (both days inclusive)
2024 annual general meeting	28 June 2024

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Fu Haishu (傅海曙), aged 50, is the founder of our Group, Executive Director and Chairman. Mr. Fu is also the chairman of the nomination committee of the Board (the "Nomination Committee") and a member of the remuneration committee of the Board (the "Remuneration Committee"). Mr. Fu is responsible for the overall management, decision-making and strategic planning of our Group. He was appointed as our Director on 2 January 2018 and redesignated as our Executive Director and Chairman on 30 May 2019. Mr. Fu is currently a director of Hangzhou Raily Beauty Consultation Co., Ltd. ("Raily Beauty Consultation"), Wuhu Raily, Ningbo Zhuerli Beauty Consulting Service Co., Ltd. ("Ningbo Zhuerli"), Wuhu Raily Medical Equipment Trading Co., Ltd. ("Raily Equipment"), Suzhou Yonglan, Jiumei Xinhe and Shenzhen Ruiquan Management Consulting Co., Ltd. ("Shenzhen Ruiquan").

Mr. Fu graduated from the Shanghai Medical College (上海醫科大學) (currently known as Shanghai Medical College of Fudan University (復旦大學上海醫學院)) major in Clinical Medicine in July 1999.

Being the founder of our Group, Mr. Fu has more than 15 years of experience in the aesthetic medical industry. Prior to founding our Group, he had served as a surgeon in Ruian Red Cross Hospital (瑞安市紅十字醫院) from December 1996 to December 2007.

Mr. Fu became a member of the First Minimally Invasive and Anti-ageing Expert Committee of the Beauty and Plastic Surgeons Branch of the Chinese Medical Doctor Association (中國醫師協會美容與整形醫師分會) in July 2007. He was a special member of the 6th and 7th editorial board of the Chinese Journal of Aesthetic and Plastic Surgery (中國美容整形外科雜誌) from May 2009 to August 2016. He became the managing director of the Translational Medicine Association of Zhejiang (浙江省轉化醫學學會) from April 2015 to June 2018. He was appointed as the chairman of the Financial Investment Branch of the CAPA in September 2016 and was appointed as the managing director of the Standing Council of the CAPA in October 2016. Since November 2017, he was appointed as the deputy director of the Brand Construction and Hospital Operation Management Subcommittee (品牌建設與醫院運營管理分委會) of the Plastics and Aesthetics Professional Committee (整形與美容專業委員會) of the Association of China Non-Public Medical Institutions (中國非公立醫療機構協會). As at 31 May 2021, he was appointed as the supervisor of Board of the Chinese Association of Plastic and Aesthetics (中國整形美容協會).

Mr. Song Jianliang (宋建良), aged 69, is the Chief Executive Officer of the Company, Executive Director and the Dean of our four aesthetic medical institutions. Mr. Song is responsible for assisting in the overall management and strategic planning of our Group as well as managing our four aesthetic medical institutions. He was appointed as our Executive Director on 30 May 2019. He is currently a supervisor of Raily Beauty Consultation, Hangzhou Raily and the Dean of our four aesthetic medical institutions.

Mr. Song obtained his Bachelor's Degree in Medicine from the Suzhou Medical College (蘇州醫學院) (currently known as the Medical College of Soochow University (蘇州大學醫學部)) in January 1978.

Mr. Song has over 37 years of experience in aesthetic medical clinical work and hospital management. Prior to joining our Group, he had served as a combat medic in the Wuhan Military Region General Hospital (武漢軍區總醫院) (currently known as the People's Liberation Army Central Military Region General Hospital (中國人民解放軍中部戰區總醫院)) from January 1985. He then worked at the Hangzhou Plastic Surgery Hospital (杭州整形醫院) from January 1987 to September 2005 with his last position being the Dean of the hospital, where he was responsible for its overall management. He joined our Group in January 2008 and has been working as the Dean of our four aesthetic medical institutions.

Mr. Song was awarded the title of Outstanding Young and Middle-aged Science and Technology Worker of Zhejiang Province (浙江省醫學傑出中青年科技人員) in June 1995, and 1995–1996 Outstanding Contribution Science and Technology Worker of Hangzhou (杭州市有突出貢獻的優秀科技工作者). He received special allowance from the State Council of PRC in December 1998 in reward for his contribution to the healthcare industry. He was appointed as a member of the Hand Surgery Subcommittee of the Chinese Medical Association (中華醫學會手外科分會) in October 1997 and May 2000, respectively. He was also appointed as a member of the Aesthetics Medical and Cosmetology Subcommittee of the Chinese Medical Association (中華醫學會) in September 2000. In addition, he was a member of the Reparative and Reconstructive Surgery Committee of the Chinese Association of Rehabilitation Medicine (中國康復醫學會) from October 1996 to September 2000 and from May 2004 to April 2008, respectively. He was appointed as the vice-chairperson of the Plastic Surgery Subcommittee of the Zhejiang Medical Association in July 2000. He was also appointed as the vice chairperson of the Aesthetics Medical and Cosmetology Subcommittee of Zhejiang Medical Association in August 2009, Anti-aging Subcommittee of CAPA in October 2014, and Aesthetics and Plastics Medical Doctors Subcommittee of the ZAPA in June 2014, respectively. He was appointed as the managing director of the first council of the ZAPA in May 2017, the vice president of the first council of Rhinoplasty Subcommittee of the ZAPA in April 2018, and the vice president of the first council of the ZAPA in September 2018, respectively. He became a member of the first session of the Standardization Committee of the CAPA in September 2019. He was also appointed as the vice president of the second committee of the Aesthetics and Plastics Medical Doctors Subcommittee of the Zhejiang Medical Doctors Association in October 2019. He was appointed as the vice president of the Anti-aging Subcommittee of CAPA in April 2021. He was also awarded as the Advanced Individual of the ZAPA in December 2021.

Mr. Wang Ying (王瀛), aged 47, was appointed as our Executive Director on 28 December 2021. He joined the Group in October 2008 and had over 15 years of experiences in the aesthetic medical industry. From October 2008 to March 2015, Mr. Wang was an executive manager of Hangzhou Bellafill (formerly "Hangzhou Raily Tiange Plastic Surgery Outpatient Department Co., Ltd. "), during which he was responsible for overseeing the construction of Hangzhou Raily Aesthetic Medical Hospital* (杭州瑞麗醫療美容醫院) between October 2012 and October 2013. From April 2015 to July 2019, Mr. Wang was the general manager and executive manager of Ruian Raily Aesthetic Medical Outpatient Department Co., Ltd. (formerly "Ruian Raily Aesthetic Medical Hospital Co., Ltd.") ("Ruian Raily") (瑞安瑞麗醫療美容門診部有限公司, formerly 瑞安瑞麗醫療美容醫院有限公司). Mr. Wang then worked as the general manager of Hangzhou Desi Medical Technology Co., Ltd* (杭州德斯醫療科技有限公司) and Hangzhou Feihong Investment Management Co., Ltd.* (杭州妃弘投資管理有限公司) between August 2019 and October 2019 and between November 2019 and June 2020, respectively. From July 2020 to December 2020, he was appointed as a manager of Hangzhou Lingmao Cloud Technology Co., Ltd.* (杭州靈貓雲科技有限公司). From January 2021, he acts as the general manager of the Business Development Department of Raily Beauty Consultation, our wholly owned subsidiary. Mr. Wang also holds several positions within our Group, including (a) general manager and legal representative of Jiumei Xinhe, Wuhu Raily and Raily Equipment; (b) executive director, general manager and legal representative of Hangzhou Raily, Hangzhou Bellafill, Ruian Raily, Hainan Bellafill Outpatient Department Co., Ltd. (海南貝麗菲爾門診部有限公司) ("Hainan Bellafill") and Hangzhou Ruiyan Network Technology Co., Ltd.* (杭州瑞顏網絡科技有限公司) ("Hangzhou Ruiyan Network Technology") respectively; and (c) director of Biotrisse.

* *For identification purposes only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Dequan（曹德全）, aged 47, was appointed as our Independent Non-executive Director on 4 December 2020. Mr. Cao is also the chairman of the Remuneration Committee and a member of each of the audit committee of the Board (the "Audit Committee") and Nomination Committee. Mr. Cao is responsible for supervising and providing independent advice to our Board.

Mr. Cao obtained a Bachelor's Degree of Health Management from the Anhui Medical University in July 2001. He then obtained a Master of Public Health from Chinese Centre for Disease Control and Prevention（中國疾病預防控制中心）in July 2008. He completed the Public Health Leadership Professional Development Program offered by the Griffith University in June 2010.

Mr. Cao has over 14 years of experience in the aesthetic medical industry. He worked as an assistant researcher in Chinese Centre for Disease Control and Prevention（中國疾病預防控制中心）from May 2003. From September 2009 to August 2014, Mr. Cao became the director of the office of the Chinese Association of Plastic and Aesthetics（中國整形美容協會）. He was then appointed as a full-time deputy secretary general of the association in January 2015 and the executive deputy secretary general of the association in May 2021.

Mr. Liu Teng（劉騰）, aged 54, was appointed as our Independent Non-executive Director on 4 December 2020. Mr. Liu is also the chairman of the Audit Committee and a member of Remuneration Committee. He is primarily responsible for supervising and providing independent advice to our Board.

Mr. Liu obtained a Master of Arts in Professional Accounting and Information Systems from the City University of Hong Kong in November 2004. He was admitted as a member of the Association of Chartered Certified Accountants in October 2006, and became a certified public accountant of the Hong Kong Institute of Certified Public Accountants in February 2007.

Mr. Liu has extensive experience in financial management and investment banking. He worked in Taikang Asset Management (Hong Kong) Company Limited as executive director from August 2008 to October 2010. He then worked as an executive general manager in China Orient International Asset Management Limited from February 2012 to March 2015. From October 2015 to September 2018, he worked in China Universal Asset Management (Hong Kong) Company Limited as a deputy chief executive officer. He is currently the chairman of China Eagle Asset Management Co., Ltd.

Mr. Liu is currently an independent non-executive director of Beauty Farm Medical and Health Industry Inc. (stock code: 2373), the shares of which are listed on the Main Board of the Stock Exchange.

Ms. Yang Xiaofen（楊小芬）, aged 46, was appointed as our Independent Non-executive Director on 4 December 2020. Ms. Yang is also a member of each of the Audit Committee and Nomination Committee. She is responsible for supervising and providing independent advice to our Board.

Ms. Yang obtained a Master of Law from the Tongji University in June 2013. Ms. Yang has over 17 years of experience in the PRC legal industry. She worked in Zhe Jiang Zhehang Law Firm（浙江浙杭律師事務所）from August 2006 to August 2014 with her last position held as a lawyer. She worked as a lawyer at Zhejiang Dingya Law Firm（浙江鼎亞律師事務所）from August 2014 to March 2018. She worked as a lawyer and the executive head at Zhejiang Zhong Xin Da Law Firm（浙江眾信達律師事務所）from March 2018 to July 2023. She worked as a lawyer at Zhejiang Dingya Law Firm from July 2023 to December 2023. Since December 2023, she has been a lawyer at Zhejiang Redsun Law Firm（浙江紅太陽律師事務所）and was assigned by Zhejiang Redsun Law Firm in January 2024 to establish Zhejiang Redsun (Hangzhou) Law Firm（浙江紅太陽（杭州）律師事務所）and worked as the head of the branch office.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business. The following table sets forth certain information on our senior management members.

Name	Age	Position(s)	Roles and responsibilities	Date of joining our Group	Relationship with other Directors and senior management
Mr. Fu Haishu (傅海曙)	50	Chairman and Executive Director	Overall management, decision-making and strategic planning	7 August 2008	N/A
Mr. Song Jianliang (宋建良)	69	Chief Executive Officer, Executive Director and Dean of our four aesthetic medical institutions	Assist in overall management, strategic planning and managing our four aesthetic medical institutions	1 January 2008	N/A
Ms. Zhang Chunxiu (章春秀)	43	Chief Financial Officer	Oversee our Group's financial matters	1 January 2006	N/A

Ms. Zhang Chunxiu (章春秀), aged 43, is the Chief Financial Officer of our Group. Ms. Zhang is primarily responsible for overseeing our Group's financial matters.

Ms. Zhang obtained a Diploma in Finance from the Shanghai Normal University (上海師範大學) in June 2000 and subsequently obtained a Bachelor in Accounting from the Hangzhou Dianzi University (杭州電子科技大學) in January 2009.

Ms. Zhang has over 17 years of experience in financial management. She joined Raily Beauty Consultation as a financial officer from January 2006 to December 2007. Since January 2008, she has been the financial director of Raily Beauty Consultation, Hangzhou Raily, Hangzhou Bellafill, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment, Hangzhou Ruiquan Medical Equipment Co., Ltd.* (杭州瑞泉醫療器械有限公司) ("Hangzhou Ruiquan"), Suzhou Yonglan, Jiumei Xinhe, Shenzhen Ruiquan, Hainan Bellafill, Hainan Jiumei Xinhe Medical Equipment Co., Ltd.* (海南九美信禾醫療器械有限公司) ("Hainan Jiumei Xinhe") and Hangzhou Ruiyan Network Technology, where she is responsible for overseeing the financial matters.

For biographical details of Mr. Fu Haishu and Mr. Song Jianliang, please see the section headed "Executive Directors" above.

* For identification purposes only

COMPANY SECRETARY

Mr. Chan Oi Fat（陳愛發）, aged 45, was appointed as our Company Secretary on 27 November 2020. Mr. Chan obtained his Bachelor's Degree of Business Administration (Accountancy) from the City University of Hong Kong in November 2000. He is a member of the Association of Chartered Certified Accountants. He is also a member of the Hong Kong Institute of Certified Public Accountants and a life member of the Hong Kong Independent Non-Executive Director Association.

Mr. Chan has over 15 years of experience in providing professional corporate secretarial services and financial advice to listed companies. From September 2000 to January 2008, Mr. Chan worked in Deloitte Touche Tohmatsu with his last position as audit manager. From January 2008 to March 2018, he served as financial controller and was responsible for the financial and accounting management and company secretarial affairs in Ta Yang Group Holdings Limited（大洋集團控股有限公司）, a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 1991.HK). From June 2014 to January 2021, he serves as the independent non-executive director of Shanghai Prime Machinery Company Limited（上海集優機械股份有限公司）, a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 2345.HK). Since February 2018, he serves as the company secretary of China Leon Inspection Holding Limited（中國力鴻檢驗控股有限公司）, a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 1586.HK). In April 2018, he joined SML (Hong Kong) Limited, and served as its financial controller and was later promoted to the position of chief financial officer in April 2019. From July 2020 to December 2023, he serves as the independent non-executive director of China Saftower International Holding Group Limited（中國蜀塔國際控股集團有限公司）, a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 8623.HK).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value, which emphasise transparency, accountability and independence.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

During the Year, the Company has complied with all applicable code provisions in the CG Code.

CORPORATE CULTURE, VALUE AND STRATEGY

The Group has clear business cultures and corporate values to maintain high standards of business ethics and corporate governance and to act lawfully, ethically and responsibly. Integrity is the guiding principle for the Group's employees to behave and act without compromising its stringent standards. In addition, the Group treasures and practices the vision of commitment to workforce development, workplace safety and health, diversity, and sustainability, which serves to attract, develop and retain talents and bring about quality services. Through these, the Group strives to achieve long-term, steady and sustainable growth, while having due considerations from environmental, social and governance aspects. The Group's culture also aligns with its strategy and forms one of its strategic focuses. Adequate training in relation to the above will be provided to new employees, and regular update training will be provided to existing employees.

Meanwhile, it is the Group's rigorous and ongoing strategic planning process to identify short-term and long-term opportunities and challenges which the Group may face and to deliver due and timely responses in order to generate sustainable value for shareholders.

Ongoing management efforts will continue to be made to achieve the above and to assess the effectiveness of and level of compliance with the Group's corporate cultures, principles and values by, for instance, evaluating the impact of the same on the business developments of the Group and monitoring the status of employees' compliance with applicable laws, regulations and internal policies. The management of the Company will measure the success of the implementation of corporate cultures, principles and values based on various factors, including the number of non-compliance incidents of employees and the overall improvement of business performance. The Group also provides whistle-blowing channels for all stakeholders of the Group to share concerns on any misconduct or non-compliance with applicable laws, regulations and internal policies, upon receipt of which the Group will conduct investigation and take remedial measures, if needed, in a timely manner.

As an incentive to support the implementation of the Group's cultures, principles and values, the Group encourages its employees to act with integrity and strictly follow its standards and internal policies, and will specifically consider an employee's compliance record and performance in this regard when considering his/her promotion and salary adjustment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 to the Listing Rules as the code of conduct for securities transactions by the Directors.

The Company has made specific enquiries with all Directors, and all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the Year.

BOARD OF DIRECTORS

Composition of the Board of Directors

The composition of the Board during 2023 and up to the date of this report is as follows:

Executive Directors
Mr. Fu Haishu *(chairman)*
Mr. Song Jianliang *(chief executive officer)*
Mr. Wang Ying

Independent Non-executive Directors
Mr. Cao Dequan
Ms. Yang Xiaofen
Mr. Liu Teng

The Board currently consists of three Executive Directors and three Independent Non-executive Directors. The Board considers this composition to be balanced and to reinforce a stronger independent review and monitoring function on overall management practices. The Company has adopted a board diversity policy (the "Board Diversity Policy"), the purpose of which is to enhance the effectiveness of the Board and maintain the highest standards of corporate governance and to recognize and maintain the benefits of diversity of the Board. The biographical details and relevant relationships of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 30 to 34 of this annual report.

INDEPENDENT VIEWS MECHANISM

The Company attaches great importance to the independence of Directors and believes that independence is the key to fairness and impartiality. The Independent Non-executive Directors play a significant role in balancing the interests of the public and the Company, and the diverse background of the Independent Non-executive Directors can bring a broader mix of experience and broader perspectives to the Board. Therefore, the Group has adopted various methods to assess the independence of the Independent Non-executive Directors and is committed to fair and transparent methods in selecting suitable Directors.

In assessing the independence and suitability of a candidate for the position of Independent Non-executive Directors, the candidate nominated as an Independent Non-executive Director must satisfy the independence criteria set out in Rule 3.13 of the Listing Rules. Where applicable, the Nomination Committee should also evaluate the candidate's education background, qualifications and experience in order to consider whether he/she has the appropriate professional qualifications or accounting or related financial management expertise to meet the office of an Independent Non-executive Director.

If the proposed Independent Non-executive Director fails to meet any of the independence guidelines set out in Rule 3.13 of the Listing Rules, the Group must first demonstrate that the individual is independent before the proposed appointment. The Group must also disclose in its announcement of the appointment of such Director and in its first annual report thereafter the reasons why it considers such Director to be independent.

Each Independent Non-executive Director is required to inform the Group and the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect his./her independence and to confirm his/her independence to the Group on an annual basis. The Group is required to confirm in its annual report whether it has received such confirmation and whether it still considers the independent non-executive Directors to be independent. Each person who has any financial or other interest in the business of the Group in the past or present or is connected with any connected person (as defined in the Listing Rules) must make a true disclosure. The Nomination Committee is responsible for assessing the independence of all Independent Non-executive Directors on an annual basis and confirming whether each of them meets the independence criteria as set out in the Listing Rules and that there are no relationships or circumstances which are likely to affect or appear to affect their independent judgment. Each member of the Nomination Committee will not be involved in assessing his/her own independence. In assessing the independence of Independent Non-executive Directors on an annual basis, the Company will in particular ascertain the character and judgment required from such Director to remain as an Independent Non-executive Director and continue to bring independent, objective and constructive judgment and advice to the assumptions and opinions made by the management and the Board.

Where the Board proposes a resolution to elect an individual as an Independent Non-executive Director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why the Board believes he/she should be elected and the reasons why they consider him/her to be independent.

Independent Non-executive Directors can share their views and opinions by holding meetings with the head of a core department. Specific business departments shall also attend the meetings at the request of the Independent Non-executive Directors. Where necessary, the Chairman of the Board can hold meetings with the Independent Non-executive Directors without the presence of other Directors to provide a useful platform for the Chairman to obtain independent advice on various issues of the Group. Upon reasonable request of the Independent Non-executive Directors, the Company will provide them with independent professional advice to assist them in performing their duties.

The Independent Non-executive Directors are required to submit a written confirmation of independence to the Stock Exchange in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

The Board is satisfied with the implementation and effectiveness of the Independent View Policy for the Year.

BOARD MEETINGS

The Board conducts meeting on a regular basis and also as and when required. Board meetings are scheduled in advance to facilitate maximum attendance by Directors. The Company Secretary assists the Chairman in preparing the meeting agenda, and each Director may request inclusion of items in the agenda. Senior management members may be invited to attend all board meetings to enhance communications between the Board and management. Meeting agendas and other relevant information are provided to the Directors in advance of Board or Board committee meetings. During the Year, save for meetings held between Executive Directors during the normal course of business of the Company, the Board held four board meetings.

Directors who have conflicts of interest in a resolution are required to abstain from voting.

DIRECTORS' ATTENDANCE AT BOARD/BOARD COMMITTEE/GENERAL MEETINGS

During the Year, the attendance of each member of the Board committee meetings, the Board meeting and general meeting are recorded as below:

	Number of meetings attended/Number of meetings entitled to attend				
Name of Directors	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors					
Mr. Fu Haishu	4/4	–	2/2	1/1	1/1
Mr. Song Jianliang	4/4	–	–	–	1/1
Mr. Wang Ying	4/4	–	–	–	1/1
Independent Non-executive Directors					
Mr. Cao Dequan	4/4	3/3	2/2	1/1	1/1
Mr. Liu Teng	4/4	3/3	2/2	–	1/1
Ms. Yang Xiaofen	4/4	3/3	–	1/1	1/1

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and overseeing the Group's business, strategic decisions and performance. The Board has the functions of considering and approving the strategies, financial objectives, annual budget and investment proposals of the Group. The Independent Non-executive Directors, who offer diverse industry expertise, serve the important function of advising the management on strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole. Significant transactions are approved by the Board.

Save as disclosed in the section headed "Biographies of Directors and Senior Management" on pages 30 to 34 of this annual report, the members of the Board have no financial, business, family or other material/relevant relationship with each other.

The Board also performs its corporate governance functions in accordance with the CG Code. A summary of the works performed by the Board on corporate governance functions during the Year is as follows:

(a) Develop and review the corporate governance policies and practices;

(b) Review and monitor the training and continuous professional development of the Directors and senior management;

(c) Review and monitor the policies and practices related to compliance with statutory and regulatory requirements;

(d) Review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) Review whether the Company has complied with the disclosure requirements of the CG Code and the corporate governance report.

Delegation to Management

Day-to-day operational responsibilities are specifically delegated by the Board to the management under the leadership of the chief executive officer (the "CEO"). The main duties of the management include implementation of the strategies and decisions approved by the Board, and the management assumes full responsibility to the Board for the business operations of the Group.

Participation of Directors in Continuous Professional Training

Code provision C.1.4 of the CG Code stipulates that all Directors must participate in continuous professional development to develop and refresh their knowledge and skills, with the purpose of ensuring that they can continue to make informed and relevant contributions to the Board. The Company is responsible for arranging and funding appropriate training, and placing an appropriate emphasis on the roles, functions and responsibilities of directors of listed companies. All Directors are provided with necessary training and information to ensure that they have a proper understanding of the Company's operations, businesses and market in which it operates as well as his responsibilities under relevant statues, laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole to discharge their duties. The Directors and senior management also meet on a regular basis or as necessary to discuss issues such as operation of the Company, corporate governance policies, and regulatory compliance. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director. During the Year, all Directors have participated in continuous professional development by attending seminars or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the Year, Mr. Fu Haishu is the chairman of the Company and Mr. Song Jianliang is the CEO. Code provision C.2.1 of the CG Code stipulates that the roles of chairman and CEO shall be separated and shall not be performed by the same individual. The Company has complied with such code provision and the power of management is not concentrated in any one individual.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDS")

All INEDs, Mr. Cao Dequan, Ms. Yang Xiaofen and Mr. Liu Teng, have each entered into an appointment letter with a term of three years commencing from 28 December 2023, subject to, among others, re-election in accordance with the Company's articles of association (the "Articles of Association").

Each INED is required to give a written annual confirmation of his/her independence and to inform the Company as soon as practicable if there is any change that may affect his/her independence. The Company confirms that it has received from each INED the annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules, and the Company still considers each INED to be an independent person.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All Directors are appointed for a specific term, subject to renewal upon expiry of the existing term. Each of the Executive Directors has entered into a service contract with the Company for a term of three years, and each of the INEDs has signed an appointment letter with the Company for a term of three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment of Directors and assessing the INEDs.

According to the Articles of Association, one-third of the Directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. In addition, any Director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after his appointment, and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company. The retiring Directors are eligible for re-election by the shareholders at the respective general meetings.

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the CG Code:

- Remuneration Committee
- Nomination Committee
- Audit Committee

Each committee has authority to engage outside consultants or experts as it considers necessary to discharge the committee's responsibilities. Minutes of all committees meetings are circulated to their members.

REMUNERATION COMMITTEE

The composition of the Remuneration Committee is as follows:

Independent Non-executive Directors
Mr. Cao Dequan *(Chairman)*
Mr. Liu Teng

Executive Director
Mr. Fu Haishu

The Board has established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the paragraph E.1.2 of the CG Code. The primary duties of the Remuneration Committee are to make recommendations to the Board regarding our policy and structure for the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies, and to make recommendations to the Board on the remuneration packages of our Directors and senior management and on the employee benefit arrangement and to review and/or approve matters relating to the share scheme under Chapter 17 of the Listing Rules.

During 2023, the Remuneration Committee held two meetings. Details of the attendance of members of the Remuneration Committee at the above-mentioned meeting are set out in the sub-section headed "Directors' Attendance at Board/Board Committee/General Meetings" above.

A summary of the work performed by the Remuneration Committee is as follows:

a. reviewed the 2023 remuneration package of the senior management of the Company;

b. reviewed the 2023 remuneration package of the Directors.

NOMINATION COMMITTEE

The composition of the Nomination Committee is as follows:

Executive Director
Mr. Fu Haishu *(Chairman)*

Independent Non-executive Directors
Mr. Cao Dequan
Ms. Yang Xiaofen

The Board has established a Nomination Committee with written terms of reference in compliance with Rules 3.27A of the Listing Rules and the paragraph B.3.1 of the CG Code. The primary duties of the Nomination Committee are mainly reviewing the structure, size and composition of the Board, identifying individuals who are suitably qualified to become a member of the Board, assessing the independence of the INEDs, selecting or making recommendations on the selection of individuals nominated for directorships and succession planning for the Directors, in particular, the chairman of the Company and the CEO.

During 2023, the Nomination Committee held one meeting. Details of the attendance of members of the Nomination Committee at the above-mentioned meeting are set out in the subsection headed "Directors' Attendance at Board/Board Committee/General Meetings" above.

A summary of the work performed by the Nomination Committee is as follows:

a. reviewed the structure, size and composition of the Board and succession plan;

b. assessed the independence of INEDs;

c. reviewed the Board Diversity Policy and the progress on achieving the measurable objectives;

d. made recommendation to the Board on the re-election of the retiring Directors.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

Independent Non-executive Directors
Mr. Liu Teng *(Chairman)*
Mr. Cao Dequan
Ms. Yang Xiaofen

The Board has established an Audit Committee with written terms of reference in compliance with the Rule 3.22 of the Listing Rules and paragraph D.3 of the CG Code. The primary duties of the Audit Committee are to provide oversight of the financial reporting process, the audit process, the mechanism of internal control and compliance with laws and regulations, appointment of external auditors and perform further duties and responsibilities as assigned by our Board from time to time.

During 2023, the Audit Committee held three meetings. Details of the attendance of members of the Audit Committee at the above-mentioned meetings are set out in the sub-section headed "Directors' Attendance at Board/Board Committee/General Meetings" above.

A summary of the work performed by the Audit Committee is as follows:

a. **Financial Reporting**
- Reviewed and approved the audited consolidated financial statements for the year ended 31 December 2023 in conjunction with the Company's external auditors, Ernst & Young, and the unaudited financial statements for 6 months ended 30 June 2023 prior to approval by the Board;
- Reviewed the accounting principles and practices adopted by the Group;
- Reviewed the auditing and financial reporting matters, including the key audit matters of the consolidated financial statements for the year ended 31 December 2023 which are set out in the annual report of the Company for the year ended 31 December 2023;
- Reviewed the audit planning for the year ended 31 December 2023 in conjunction with the Company's external auditors;
- Previewed the financial status for the year ended 31 December 2023;

b. **External Auditors**
- Approved the remuneration and terms of engagement of the Company's external auditors;
- Reviewed the independence and objectivity of the Company's external auditors and the effectiveness of audit procedures according to applicable standards;
- Reviewed the re-appointment of Company's external auditors and was satisfied with their work, their independence, and their objectivity, and therefore recommended the re-appointment of Ernst & Young (which had indicated their willingness to continue in office) as the Company's external auditors for Shareholders' approval in the annual general meeting which was held on 16 June 2023;
- Met with the Company's external auditors without the attendance from the executive Directors;

c. **Internal Audit**
- Reviewed the audit procedures and risk management and internal control systems of the internal audit department; and

d. **Risk Management and Internal Controls**
- Reviewed the effectiveness of risk management and internal control systems.

The Audit Committee has reviewed and approved the annual results of the Group for the year ended 31 December 2023 prior to approval by the Board, which was of the view that the preparation of such annual results have complied with the requirements of the applicable accounting standards, the Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

The Audit Committee has recommended to the Board the re-appointment of Ernst and Young, Certified Public Accountants, as auditors of the Company and the Company will propose a resolution for the re-appointment of Ernst & Young as the Company's auditor at the forthcoming annual general meeting of the Company.

AUDITORS' REMUNERATION

During the Year, the remuneration paid/payable to Ernst & Young, the Company's external auditors, for the provision of audit and other services is set out below:

	Fees paid/payable RMB'000
Audit services	160
Non-audit services	65

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

During the Year, the remuneration of senior management members by band is set out below:

Remuneration Band (HK$)	**Number of individuals**
HK$nil to HK$1,000,000	3
HK$1,000,001 to HK$2,000,000	1

Further particulars regarding the Directors' remuneration and the five highest paid employees are set out in Note 8 and Note 9 to the financial statements, respectively.

DIRECTORS' RESPONSIBILITIES ON FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group for the Year, which give a true and fair view. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 100 to 101 of this report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries, and believes that the systems are effective and adequate.

The Board is responsible for ensuring that the Group maintains a sound and effective risk management and internal control system and reviewing its effectiveness through the Audit Committee. The system is used to manage (rather than eliminate) the risk of failing to achieve the Company's goals, and aims to provide reasonable but not absolute guarantees about avoiding major misstatements, losses or frauds.

The Company has established an Internal Audit Department, and reviewed the risk management and internal control system at least once during the Year.

The Internal Audit Department at our headquarters is generally responsible for approving all the risk management procedures and internal control systems. Our departments at the headquarters oversee the implementation of such procedures and systems by our aesthetic medical institutions, while the respective departments of our aesthetic medical institutions are responsible for daily affairs in respect of implementation of such procedures and systems. Our employees receive mandatory training on relevant policies, standards, protocols and procedures from time to time and are required to strictly follow them in daily operations. The Audit Department at our headquarters is overseen by the Audit Committee.

The Board has adopted an enterprise risk management framework for the Company. If any significant risks are noticed in daily operations, the Group's business units, support functions and individuals will review, share experiences and report to senior management. The Internal Audit Department communicates and assesses the Group's risk portfolio and significant risks at the group level. The Board authorizes the executive management to design, implement and continuously assess these risk management and internal control systems; at the same time, the Board, through the Audit Committee, monitors and reviews the adequacy and effectiveness of established procedures for the monitoring and risk management of financial, operational and compliance matters.

Based on the assessment results and statements made by senior management, the Audit Committee is satisfied that:

- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and

- appropriate systems of internal control and risk management have been in place for the Year and up to the date of this report.

Procedures and Internal Controls for Handling and Dissemination of Inside Information

In handling and dissemination of inside information, the Group:

– requires the inside information to be reported to the Board and the Company Secretary of the Company;

– will conduct immediate dissemination once inside information is available and/or respective decision is made, except the inside information falling into the Safe Harbours of Securities and Futures Ordinance that allow non-disclosure;

– complies with applicable laws, rules and Guidelines on Disclosure of Inside Information issued by Securities and Futures Commission; and

– communicates with relevant persons about corporate information disclosure practices with respective training.

BOARD DIVERSITY POLICY

In recognition of the particular importance of gender diversity, we are committed to promote gender diversity at the Company at all levels, including but without limitation, at the Board and senior management levels, to enhance the effectiveness of the corporate governance. We have taken and will continue to take steps to promote gender diversity of the Company, including the appointment of one female Non-executive Director, INED and senior management member. Subject to availability of experienced management personnel in the industry, we have also adopted measures to promote gender diversity in developing a pipeline of female senior management and potential successors to the Board, including putting gender diversity as a strategic priority when sourcing for the Director candidates, leveraging the community resources including relevant associations, networking groups and publications, and forging and keeping relationship with the potential candidates, as well as engaging more resources in training female staff who have long and relevant experience in our business, with the aim of promoting them to the senior management or directorship of the Group.

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board Diversity Policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, gender, cultural and educational background, professional and industry experience, skills and knowledge, insight, and the potential contributions that such candidate could bring to the Board. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires being effective. The structure, size and composition (including, for example, gender, age, and length of service) of the Board will be reviewed from time to time by the Nomination Committee to ensure that the Board has a balance of skills, expertise and diversity of perspective for providing effective leadership to the Company and meeting the needs of the Group.

The Company recognizes and embraces the benefits of having a diverse Board, and considers diversity at Board level as an essential element in maintaining a competitive advantage. The Company also recognizes the importance of being able to attract, retain and motivate employees from the widest pool of available talent, and is committed to diversity at all levels, including gender, age, cultural and educational background, and professional experience. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industry experience, background, gender and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objective.

The Nomination Committee reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new Directors of the Company. The Nomination Committee also oversees the conduct of the annual review of the effectiveness of the Board.

In reviewing and assessing the composition of the Board, the Nomination Committee considers the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board. Factors to be taken into account include: gender, age, ethnicity, cultural and educational background, professional skills, experience and knowledge. Due regard is to be given to the business model and specific needs of the Company.

Principles

The Board believes in the benefits of diversity and recognizes that diversified thinking can create prudent business ideas. The Board is composed of individuals with different skills, experiences, backgrounds and opinions, namely:

- Have competitive advantages;
- Really understand the opportunities, problems and risks;
- Include different opinions, ideas and relationships;
- Strengthen decision-making and exchange of opinions; and
- Improve the ability to supervise the Company and its governance.

Factors and Reasons Behind

In terms of achieving diversity of board members, factors to be considered include but not limited to:

(1) Business and practical experiences;

(2) Professional skills and expertise;

(3) Gender;

(4) Age; and

(5) Cultural and educational background.

The principal business of the Group is the provision of aesthetic medical services, which are highly competitive businesses and activities. Experiences in business or activities or other businesses or activities are essential for understanding and operating the business and activities of the Group. Professional (such as law, accounting) skills and professional knowledge are particularly important to minimize the risks of the Group's business and activities. In terms of customers' requirements and feedback on the services provided by the Group and the needs of shareholders and investors, gender and age diversity and cultural and educational diversity will generate different opinions.

PROGRESS ON AND STATUS OF GENDER DIVERSITY

As at the date of this annual report, the Board comprises five male Directors and one female Director. The Nomination Committee considered that the Board had achieved gender diversity and possessed skill and expertise and a diverse mix appropriate for the business of the Company and will review the composition and diversity of the Board annually to ensure its continued effectiveness.

The details of workforce composition were disclosed under Environmental, Social and Governance Report in this annual report.

From the perspective of sociology, female's cognition of beauty is relatively higher than that of male. From the perspective of marketing, female representatives with better external performance are also a consumption implication. Combined with the characteristics of the aesthetic medical industry, the gender ratio of employees of the Company is relatively imbalanced, and the proportion of female employees is higher. With the rise of internet celebrity economy, better external performance men are also more popular, and the impressions of men and women are no longer solidified, especially the potential of male consumption is huge. The Company plans to increase the number of male employees to recruit, strengthen the cultivation of professional quality of male employees, and promote gender diversity of employees. With increasingly fierce market competition, corporate organizations are facing the impact of rapid changes in the environment. The gender diversity of employees can promote information exchange within the organization and become the key to the organization's competitive advantage. The Group is able to properly address gender issues and has a wider range of talent choices and a competitive advantage.

NOMINATION POLICY

The Board has adopted a Director Nomination Policy, which sets out the criteria, procedures and processes for selecting and recommending candidates to serve on the Board of the Company.

Selection Criteria

A number of factors should be considered when selecting and recommending candidates for the Directors of the Company, including but not limited to:

(1) Personal ability: Each candidate must abide by the highest ethical standards, demonstrate solid business judgment, and possess strong interpersonal skills.

(2) Comply with the Company's policy on diversity of board members.

(3) Comply with the Company's memorandum and Articles of Association and the Listing Rules.

(4) Specific skills and experiences:

   (a) Leadership experience in an organization or company of similar size and complexity to the Company;

   (b) Past board experience;

   (c) Able to read and interpret financial statements;

   (d) Experience in legal affairs;

   (e) Experience or expertise in the beauty industry or beauty service field;

   (f) Understand and share the Company's vision;

   (g) Able to invest necessary time and energy for the Company's good governance and improvement.

Procedures and Processes

(1) Any board member may nominate a candidate for new appointment as a Director of the Company or re-appoint any existing Director.

(2) The Nomination Committee may convene a meeting to review the nomination of relevant candidates.

(3) The Nomination Committee shall conduct due diligence on the candidates and make recommendations for the Board to consider and approve.

(4) The shareholders of the Company may elect any individual to serve as a Director of the Company through ordinary resolutions.

This policy will be reviewed from time to time.

DIVIDEND POLICY

In determining whether to propose the payment of dividends and the amount of dividends, the Company will consider the Group's future operations and strategies, financial performance, cash flow, market conditions, capital requirements and any other factors deemed relevant by the Board.

The declaration and payment of dividends by the Company are subject to the sole discretion of the Board from time to time, and shall also comply with any restrictions imposed by the Cayman Islands Company Law and the Articles of Association.

This policy will be reviewed from time to time.

DIRECTORS' REMUNERATION POLICY

The remuneration policy of the Directors of the Company (the "Policy") aims to set out the Group's criteria and guidelines in determining the remuneration packages of individual Directors and employees. High-quality and dedicated employees are one of the valuable assets contributing to the success of the Group. To ensure our ability to attract and retain talents, the Group's Remuneration Policy aims to provide fair and market-competitive, adequate but not excessive remuneration packages to support performance culture and achieve strategic business goals.

The Remuneration Committee is responsible for formulating the Group's remuneration policy for the Board's approval, and making recommendations to the Board on the annual salary adjustment and annual performance bonus of the Group. The appropriate remuneration offered to the Directors is mainly to ensure that an appropriate level of remuneration is maintained so as to attract and retain experienced and high-caliber talent to assist and manage the business and development of the Company. The remuneration will be reviewed annually with reference to factors such as the Company's performance and market trends.

The remuneration of Independent Non-executive Directors, subject to shareholders' approval, should be fixed by the Board and should be commensurate with their contribution and contribution to the Company. The Remuneration Committee should conduct regular reviews of the remuneration policies of the Executive directors and senior management independently from executive management.

In approving and determining the remuneration package, the Remuneration Committee shall consider and evaluate the performance of the Group and the key financial and operational performance targets of the Group. The remuneration package and structure should be based on a fair reward system to all participants and include the following key components:

Consideration of fixed remuneration

Basic salaries and allowances	• Level of remuneration in line with general norms and/or market trends in the industry in which the Group operates • Market benchmarks relevant to the function and scope of work of the relevant directors or employees • Company performance and financial performance • Individual performance and contribution (which can be measured by the achievement of individual annual financial and operating targets) • Other factors considered by the Remuneration Committee

Consideration of variable remuneration

Performance bonus (if any)	• Company performance and financial performance • Individual performance and contribution (which can be measured by the achievement of individual annual financial and operating targets) • Other factors considered by the Remuneration Committee

SHAREHOLDERS COMMUNICATION POLICY

The Company attaches great importance to communication with Shareholders and recognizes its responsibility to create maximum value for Shareholders. To ensure a two-way communication channel between the senior management of the Company and the Shareholders and investors, the Group has adopted various means to enhance communication and dialog with each other. The Group is committed to enhancing investor relations through timely, fair and transparent communication with shareholders and investors. The Company is committed to maintaining effective and transparent communication with its shareholders and investors in a proactive manner and ensuring that information is disseminated to shareholders and potential investors in an accurate, consistent and timely manner.

The Company has established different communication channels to ensure that all stakeholders have public access to corporate information. The Company will issue corporate communications (which include to financial reports, results announcements, announcements and circulars) containing regulatory disclosures and notices of the Company in accordance with applicable laws and regulatory requirements.

The annual general meeting (the "AGM") and the extraordinary general meeting (the "EGM") of the Company provide an important and open platform for shareholders to discuss and communicate with the management of the Group. Shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. The chairman of the general meeting will provide reasonable time for shareholders to raise questions and express their opinions.

The senior management of the Group may answer questions raised by shareholders at the AGM/EGM, at which separate resolutions are proposed on significant matters. An explanation of the detailed procedures of conducting a poll will be provided to shareholders at the commencement of the AGM/EGM to ensure that shareholders are familiar with the procedures. The poll results in respect of the resolutions proposed at the meeting will be published on the websites of the Company and the Stock Exchange after the conclusion of the AGM/EGM.

In order to improve the accuracy and transparency of public disclosure, the Group attaches great importance to the preparation of interim and annual reports. The Group's report provides in-depth analysis and discussion of key areas, including financial and operating results. On the other hand, the Group will keep the shareholders informed of any material events or inside information by way of announcement. For any matters requiring shareholders' approval, the Group will convene an extraordinary general meeting and publish a circular in accordance with the requirements of the Stock Exchange before a specified date to inform the shareholders so that they have sufficient time to prepare for the voting.

All published annual reports, interim reports, announcements and circulars have been uploaded to the Stock Exchange's website and the Company's corporate website.

The Company maintains a dedicated investor relations section on its corporate website. The Group regularly provides investors, shareholders and the media with the latest information through press releases, financial statements and company announcements, in order to provide the latest business progress, financial and operational information to the market and enhance corporate interaction, communication and transparency. In order to protect the environment and maintain effective communication with shareholders, all shareholders are encouraged to visit the Group's corporate website for up-to-date information.

Shareholders may at any time make a request for the Company's information to the extent that such information is publicly available. Shareholders should direct their questions about their shareholdings to the Company's branch share registrar, whose contact details are set out below:

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

The Board has reviewed the Shareholders' Communication Policy and its effectiveness for the Year. The Company has provided appropriate communication channels to the shareholders in accordance with the Shareholders' Communication Policy and therefore the existing Shareholders' Communication Policy is appropriate to the Company.

COMPANY SECRETARY

Mr. Chan Oi Fat has been appointed as the Company Secretary of the Company on 27 November 2020. During 2023, Mr. Chan Oi Fat has taken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETING

If a shareholder wishes to put forward proposals at a shareholders' meeting, the shareholder, who has satisfied the shareholding requirements set out in the following paragraph headed "SHAREHOLDERS' RIGHTS", may follow the same procedures by sending a written requisition to the Board. The shareholder should state his/her proposals in the written requisition and submit the written requisition as early as practicable to enable the Company to make necessary arrangement.

SHAREHOLDERS' RIGHTS

The Way by Which Shareholders Can Convene Extraordinary General Meeting

According to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two Months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR MAKING ENQUIRIES TO THE BOARD

Any enquiries to be put to the Board are welcomed and can be addressed to the Company's Securities Affairs Department via email (investor.relationship@raily.com) or by mail to the following address:

Raily Aesthetic Medicine International Holdings Limited
5/F, Minhang Tower
No. 290 North Zhongshan Road
Gongshu District
Hangzhou PRC

Attn: Securities Affairs Department

AMENDMENTS TO CONSTITUTIONAL DOCUMENT

There had been no changes in constitutional documents of the Company during the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

The Group is pleased to present the Environmental, Social and Governance ("ESG") Report (the "ESG Report"). This ESG Report describes the performance, policies, and strategies of the Group in terms of sustainable development, environmental protection, employee care, and corporate responsibility. We hope to demonstrate our concern for sustainable development and related issues through this ESG Report, listen to the opinions of various stakeholders, and establish a long-term and close relationship with them.

1.1 Reporting Scope

This ESG Report covers the environmental and social performance of the Group from 1 January 2023 to 31 December 2023 (the "Year"). Regarding the key performance indicators (KPIs) in environmental and social aspects, the Group focuses on the performance of i) aesthetic medical services (include one aesthetic medical hospital in Hangzhou, and three aesthetic medical out-patient departments in Hangzhou, Rui'an and Wuhu), ii) aesthetic medical management consulting services (include two offices in operation in Hangzhou and Shenzhen), iii) medical equipment trading services in Shenzhen, and iv) biomedical technology services in Suzhou (newly established this year) operated in the People's Republic of China (the "PRC"). This scope is determined by the fact that the actual business premises and the office premises have a significant impact on the Group.

1.2 Reporting Standard

This ESG Report is prepared by the Company in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix C2 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"), and has been reported and disclosed according to the provisions of "Mandatory Disclosure" and "Comply or Explain" therein.

1.3 Reporting Principles

The scope and content of this ESG Report is determined through stakeholder engagement and materiality assessment process, which includes identifying ESG-related issues, collecting and reviewing the management and stakeholders' opinions, assessing the materiality of ESG-related issues on the Group. This ESG Report covers all key issues that different stakeholders have raised concerns.

This ESG Report discloses environmental and social KPIs in a quantitative manner to enable stakeholders to have a more comprehensive understanding of the Group's ESG performance. All standards, methodologies, references and emission and conversion factors calculated these KPIs are stated in this ESG report. In order to enhance comparability of ESG performances in future years, the Group has strived to adopt consistent reporting and calculation methodologies as far as reasonably practicable. If there are any changes in the reporting and the calculation methodologies or specific standards, the Group will explain in detail in this ESG Report.

1.4 Information and Feedback

The Group attaches great importance to your opinion on the ESG performance of the Group. If you have any comments or suggestions, please contact us through the following methods:

Address: 5/F, Minhang Tower,
No. 290 North Zhongshan Road,
Gongshu District, Hangzhou, PRC
Tel: 0571-8882 6555
Fax: 0571-8882 7555
Email: service@raily.com

2. ESG GOVERNANCE

The Group understands the importance of ESG governance to sustainable development, and believes that the opinions and participation of various stakeholders are particularly important to ESG governance. Therefore, the Group is committed to continuously improving its ESG governance and performance by understanding from various channels the stakeholders' expectations and requirements for the Group and ESG issues of particular concern. The Group has established policies related to environmental, social and corporate governance responsibilities, and has formulated appropriate ESG risk management measures and internal control systems to ensure that the Group can effectively respond to potential ESG risks and take corrective measures when necessary.

2.1 Statement from the Board

The Group believes that good ESG governance strategies and practices are essential to the long-term development of its business and help enhance the value and return of investment. To this end, the Board of Directors (the "Board") has established clear ESG duties and responsibilities, and the Executive Directors are responsible for overseeing the implementation of the Group's ESG work. The Board pays attention to the progress of preparation and compilation of ESG Reports. To ensure the smooth implementation of ESG-related issues, the Board also regularly meets with department heads and reviews communication channels among departments to effectively improve the implementation of ESG-related work.

During the Year, the Group has commissioned a third-party ESG professional consultant (the "ESG Consultant") to assist in stakeholder communication and materiality assessment, collect and analyze the opinions of various stakeholders on different ESG issues, and to integrate material ESG issues in the aesthetic medical industry to identify ESG issues that are important to the Group. At the same time, the Group has reviewed and discussed the results of the materiality assessment with the ESG consultant to ensure that the assessment results are in line with the Group's development direction.

To enable the Group to develop in an orderly manner in the ESG aspects, the Board will gradually set goals for various ESG issues of the Group. The Board will continue to follow up, coordinate and manage the progress of ESG work carried out by different departments in accordance with the goals set, and the management's performance compensation is also linked to the achievement of sustainability objectives to promote the effective implementation of ESG management by the Group.

2.2 Stakeholder Engagement

The Group understands the importance of stakeholders to business development. Therefore, the Group attaches great importance to the participation of stakeholders and takes their opinions as the core part of the preparation of this ESG Report to continuously improve our ESG performance. During the Year, we have set up appropriate communication channels for stakeholders to maintain close communication with them and listen to their opinions and expectations. This will also help us to determine the potential risks in our business operations, identify ESG issues of concern to our stakeholders, and improve our ESG management standards at all levels.

Stakeholders	Expectations	Management response/ communication methods
Government and Regulators	• Comply with national policies and laws and regulations • Pay taxes on time	• Regular reporting • Inspection and supervision
Shareholders	• Compliant operation • Enhance operating value • Transparent and efficient communication	• General meetings • Announcements, circulars and interim and annual reports • Email, telephone communication and company website
Business Partners	• Operation with integrity • Performance of contracts • Mutual benefit	• Business communication • Engagement and cooperation
Customers	• Quality products and services • Operation with integrity	• Customer service center and hotline • Social media platforms
Environment	• Entrust qualified third-party institutions to recycle and process medical waste	
Industry	• Promote industry development	• Participation in industry forums
Employees	• Occupational Health • Career development	• Staff meetings • Training and workshops
Public and the Community	• Information transparency	• Company website

2.3 Materiality Assessment

In order to formulate the direction of ESG management and development, the ESG Consultant appointed by the Group has assisted in collecting and analyzing the opinions of the stakeholders on the Group's ESG issues. Through questionnaire, the Group scored and ranked the stakeholders' concern towards various ESG issues. At the same time, for a more comprehensive review of the ESG issues that are material to the Group's business, the ESG Consultant has also assisted in reviewing internal and external documents and media reports, as well as referring to the materiality map provided by external authoritative agencies to identify the ESG issues that are of major concern to the industry.[1] Based on the above scoring and screening results, in conjunction with the professional opinions of the management and the ESG Consultant, the Group has identified 12 major ESG issues, laying the foundation for the Group's future development in ESG.

[1] The materiality assessment has referred to the ESG industry materiality map provided by MSCI Inc. and the materiality map provided by the Sustainability Accounting Standards Board (SASB).

ESG aspects	Material ESG issues	Corresponding section	
Environmental	Waste Management	3.1	Pollution and Emission Control
	Energy Consumption	3.2	Resource Usage
	Greenhouse Gas Emission	3.3	Addressing Climate Change
Employment and Labour Practices	Occupational Health and Safety	4.3	Occupational Health and Safety
	Training and Education	4.4	Staff Development and Training
Operation Management	Operational Compliance	5.	Operating Practices
	Quality Management	5.2	Quality Management
	Customer Health and Safety	5.2	Quality Management
	Customer Service Management	5.2	Quality Management
	Information Security	5.3	Intellectual Property Rights and Customer Data Protection
	Customer Privacy Protection	5.3	Intellectual Property Rights and Customer Data Protection
	Responsible Sales and Marketing	5.4	Advertising and Marketing

3. ENVIRONMENTAL PROTECTION

The Group understands that environmental protection is an important part of promoting the sustainable development of the Group and the society. Therefore, the Group has spared no effort in environmental protection and is committed to incorporating environmental protection elements into the business management and decision-making process. The Group also strictly complies with national environmental laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) and the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》).

3.1 Pollution and Emission Control

The Group sets emission targets for different types of pollutants under the premise of complying with national and local laws and regulations. Our target is to reduce emissions of air pollutants, wastewater and waste, especially daily office and domestic waste, by 3% in 2026 when compared to those in 2023. The Group will take relevant measures to achieve the targets set by the Group in respect of the following different pollutants.

3.1.1 Air pollutant control

Since the business of the Group is mainly conducted in aesthetic medical institutions and offices, the Group does not generate any industrial gas emissions. There is a small amount of air pollutants generated from the Group's daily office vehicles. In order to reduce vehicle's consumption of fuel and generation of additional air pollutants due to the reduced efficiency, the Group conducts regular maintenance and repairs for its vehicles to maintain vehicle efficiency. The Group also promotes the use of new energy vehicles. Electric vehicles do not generate any air pollutants and help improve roadside air pollution. In addition, the Group encourages its employees to take public transportation and share transportation to reduce the emissions of vehicles and related air pollutants during commuting.

During the Year, the air pollutant emissions generated by the Group when using vehicles are as follows:

Vehicle air pollutants *(Note 1)*	**2023**	2022
Nitrogen oxides (kg)	**6.09**	6.90
Sulfur oxides (kg)	**0.12**	0.14
Particulate matter (kg)	**0.45**	0.51

Note:

1. *Air pollutants generated by vehicles are calculated based on the Reporting Guidance on Environmental KPIs (《環境關鍵績效指標匯報指引》) published by the Hong Kong Stock Exchange.*

3.1.2 Wastewater control

As the Group operates aesthetic medical hospitals and out-patient departments, it is possible that wastewater containing pathogens may be generated during the operation, which will pollute the environment and endanger public health if the wastewater is not treated in a proper manner. Therefore, the Group strictly abides by laws and regulations related to sewage discharge, such as the Urban Drainage and Wastewater Treatment Regulations (《城鎮排水與污水處理條例》) and Discharge Standard of Water Pollutants for Medical Organization (《醫療機構水污染物排放標準》), and adopts the sewage discharge standards of relevant laws and regulations as the Group's discharge targets for water pollutants. The Group will ensure that the sewage discharged by its hospitals is disinfected at the internal sewage treatment station and meets the discharge standards before being discharged into the municipal sewage treatment system. To ensure that the sewage discharge has minimal adverse impact on the environment, we have a real-time sewage monitoring system in place and conducts regular pathogen testing to ensure that the pH value, residual chlorine content and bacterial content such as Salmonella and Shigella of the sewage discharged meet the emission standards. During an epidemic outbreak, the Group has increased the amount of sewage treatment disinfectants and strengthened the sewage detoxification treatment capacity. In addition, the Group provides its employees annual wastewater treatment training to enhance wastewater treatment related knowledge, such as wastewater characteristics and hazards, disinfection knowledge, wastewater testing methods, equipment operation and daily maintenance, etc., to ensure the effective operation of the wastewater treatment process.

3.1.3 Waste management

Different non-hazardous wastes and hazardous wastes are generated in the aesthetic medical business of the Group. We attach great importance to the proper treatment of medical waste, as improper treatment may seriously endanger public health and the environment. Therefore, the Group has adopted corresponding waste discharge management and control measures for different wastes to reduce the negative environmental impact caused by our business operations.

For hazardous waste, the Group generates various types of medical waste in its aesthetic medical business which include used disposable medical supplies and instruments such as needles, suturing needles, cotton pads and other wound dressings, waste blood and serum, expired drugs and other discarded human tissues generated in the course of our aesthetic surgical procedures, other procedures and medical examinations. In order to ensure proper disposal of medical waste, the Group strictly complies with relevant laws and regulations such as the Regulations on the Management of Medical Waste (《醫療廢物管理條例》) and the Administrative Measures for Medical Waste of Medical and Health Institutions (《醫療衛生機構醫療廢物管理辦法》) of the PRC, and has set up a Hospital Infection Management Committee to formulate clear management procedures for medical waste. In order to regulate the proper handling of medical waste by all our departments in accordance with the law, we have formulated a Medical Waste Management System (《醫療廢物管理制度》), a Medical Waste Recycling Registration System (《醫療廢物回收登記制度》) and a Medical Waste Storage Management System (《醫療廢物儲存管理制度》). We strictly require all the departments to correctly classify medical wastes according to the Medical Waste Classification Catalogue (《醫療廢物分類目錄》) and put them into corresponding special packaging bags or containers. Medical waste will be transferred to the temporary storage place for medical waste in the hospital by the prescribed route after registration. Moreover, we will regularly transfer the collected medical waste to qualified third-party medical waste treatment companies for subsequent treatment. In order to prevent emergencies such as waste leakage, the Group has formulated the Emergency Treatment Plan for the Loss, Leakage and Spread of Medical Waste and Accidents (《醫療廢物發生流失、洩露擴散和意外事故的應急處理預案》), which clarifies the procedures for various emergencies and the division of responsibilities of each department in emergencies, to ensure that effective control measures can be quickly taken in the event of medical waste leakage, proliferation, and other accidents and to report to the relevant government departments in a timely manner. In addition, the Group's hazardous wastes include waste ink cartridges and waste batteries generated during daily office operations. The relevant hazardous wastes will be collected and recycled by qualified institutions.

In addition to hazardous waste, the Group generates non-hazardous waste, mainly general domestic waste. All non-hazardous wastes are properly disposed of by recycling, incineration or landfill.

During the Year, the amount of hazardous waste and non-hazardous waste generated by the Group is as follows:

Waste	**2023**	2022
Hazardous waste (tonnes) *(Note 1)*	**7**	13
Intensity of hazardous waste (tonnes/million RMB revenue)	**0.04**	0.08
Non-hazardous waste (tonnes)	**73**	78
Intensity of non-hazardous waste (tonnes/million RMB revenue)	**0.38**	0.48

Note:

1. *Hazardous waste includes medical waste generated during operations and the hazardous waste generated in offices.*

In order to ensure the effective classification and collection of hazardous waste and non-hazardous waste, the Group regularly trains all its employees to improve their understanding of the management of hazardous waste such as medical waste. We also post waste classification reminder tips in our medical premises to promote to customers and their family members the correct classification of medical waste and domestic waste. In addition, the Group actively implements various waste reduction measures to reduce the generation of unnecessary waste. For example, the Group sets up waste sorting and recycling bins to recycle recyclable waste such as waste paper, scrap metal and waste plastics; encourages the employees to reuse stationery such as envelopes and folders and reduces the use of disposable and non-recyclable products, etc.

3.2 Resource Usage

The Group is fully aware of the scarcity of resources and its business operations are required to make the best use of resources as efficiently as possible to avoid unnecessary wastage. Therefore, the Group is committed to saving resources in different aspects. The Group has formulated the Energy Conservation and Emission Reduction Management Policy（節能減排管理制度）in accordance with an Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) to ensure that the Group can carry out energy conservation and emission reduction work in a long-term and effective manner, improve the efficiency of resource utilization, and promote sustainable development.

In terms of electricity consumption, the Group has implemented various energy-saving measures in its daily operations such as making full use of natural light during daytime, minimizing the time for using lighting equipments and setting the temperature of air conditioners at appropriate level. In particular, the temperature of air conditioners in the office area shall be set at 26℃ or above in summer, and office equipment such as computers shall be configured to automatically enter low energy-consumption and hibernation modes when not in use. Lighting switches are set up in different lighting areas with independent control, to ensure that unused electronic equipment is turned off after office hours, and to regularly clean the lights and air-conditioner filters to maintain energy efficiency and reduce unnecessary energy use. The aesthetic medical hospitals and out-patient departments of the Group have also formulated their own energy-saving management systems, which include different electricity-saving measures to implement the Group's energy-saving philosophy. For example, using energy-efficient lamps and other electrical appliances, turning off lights when the employees leave the office, and not using air conditioners during non-office hours. The Group also encourages all the departments to actively develop and apply technological transformation projects for energy conservation and emission reduction to gradually phase out technologies and equipment with high energy consumption and starts energy conservation in the course of business operations.

In terms of water consumption, the Group regularly conducts leakage tests on concealed water pipes and checks water meter readings to check for hidden water leakage and checks for overflowing water tanks to find out the cause of blockage. In addition, in order to reduce running, spraying, dripping and leaking of tap water and avoid wasting water, the Group uses infrared sensor and water-saving faucets, and posts water-saving slogans to remind the employees to save water. During the Year, the Group did not have any issue in sourcing water that is fit for purpose.

While assuring the daily needs, the Group expects to achieve the goal of reducing 2% of its electricity and water consumption by 2026 with 2023 as the base year through the above energy-saving and water-saving measures.

During the Year, the consumption of energy and water resources of the Group is as follows:

Resource usage	2023	2022
Energy		
Total energy consumption (MWh)	**1,682**	1,574
Vehicle fuel consumption (MWh) *(Note 1)*	**79**	95
Purchased electricity (MWh)	**1,604**	1,479
Energy consumption intensity (MWh/million RMB revenue)	**8.88**	9.57
Water resources		
Total water consumption (cubic meters)	**9,736**	10,047
Water consumption intensity (cubic meters/million RMB revenue)	**51.40**	61.08

Note:

1. *Calculated based on the fuel consumption, relevant national standards for vehicle fuel, and the conversion factors provided by the National Development and Reform Commission of the PRC.*

In terms of paper consumption, the Group makes good use of electronic communication to reduce paper consumption. We have changed the way of issuing all documents of the Company, such as interim reports, annual reports and financial reports to investors. Investors have been informed that the Group's latest reports will be available on the Company's website instead of distributing printed reports to each investor in the past. This measure will significantly reduce the amount of paper consumption, and indirectly reduces carbon emissions and contributes to environmental protection. In addition, we require our employees to share and send documents by using WeChat groups and emails as much as possible to reduce the number of printed documents. Notices have also been posted near the photocopiers to remind the employees to use double-sided photocopying or reuse paper to avoid wastage.

The Group will continue to strengthen propagation and education activities of energy conservation and emission reduction to raise the employees' awareness of electricity, water and office consumables conservation and cultivate conservation habits. The Group also regularly inspects the energy consumption of its office premises and the implementation of relevant energy conservation and emission reduction measures, and rewards departments with outstanding performance in energy conservation and emission reduction; At the same time, the departments that failed to comply with the principle of saving will be punished in accordance with the relevant regulations.

3.3 Addressing Climate Change

Climate change has attracted international attention in recent years, and all the sectors of the society have to work together to reduce greenhouse gas emissions to mitigate the negative impact of climate change. The Group has conducted climate change-related risk assessment. Taking into account its business nature, the Group has not identified any significant physical risks and transitional risks caused by climate change to its business operations. Nevertheless, the Group is well aware that greenhouse gas emissions will intensify climate change, and therefore is committed to adopting different emission reduction measures from the perspective of business operations, with the aim to maintain and minimize greenhouse gas emissions as much as possible. To reduce carbon emissions generated by daily office vehicles, the Group provides low-carbon driving training for drivers, such as avoiding sudden acceleration of the vehicle and ensuring no vehicle idling. In terms of business travel, the Group uses video conferences as much as possible to replace unnecessary overseas business trips. For unavoidable business trips, the Group gives priority to direct flights. The Group also encourages the employees to commute by public transportation and participate in environmental protection related activities, such as environmental protection activities organized by environmental protection organizations and different environmental protection training courses. The Group will continue to lead its employees to participate in emission reduction and environmental protection related work to mitigate climate change.

During the Year, the Group's greenhouse gas emissions are as follows:

Greenhouse gases	2023	2022
Total greenhouse gas emissions (tonnes of carbon dioxide equivalent)	**1,350**	1,074
Direct greenhouse gas emissions (Scope 1) (tonnes of carbon dioxide equivalent) *(Note 1)*	**19**	23
Indirect greenhouse gas emissions (Scope 2) (tonnes of carbon dioxide equivalent) *(Note 2)*	**1,127**	1,040
Other indirect greenhouse gas emissions (Scope 3) (tonnes of carbon dioxide equivalent) *(Note 3)*	**14**	11
Greenhouse gas emissions intensity (tonnes of carbon dioxide equivalent/million RMB revenue)	**7.13**	6.53

Notes:

1. *Direct greenhouse gas emissions include vehicle fuel consumption. The data is calculated based on the accounting method of corporate greenhouse gas emissions and related emission factors provided by the National Development and Reform Commission of the PRC.*

2. *Indirect greenhouse emissions include purchased electricity. The data is calculated based on the average carbon dioxide emission factor of regional power grids in the PRC issued by the National Development and Reform Commission of the PRC, as well as the accounting method of corporate greenhouse gas emissions and related emission factors.*

3. *Other indirect greenhouse gas emissions include emissions from flying out on business trips, waste paper disposal, and energy consumption for treatment of water and wastewater. The data is calculated based on the International Civil Aviation Organization Carbon Emission Calculator and the Reporting Guidance on Environmental KPIs published by the Hong Kong Stock Exchange.*

4. EMPLOYEE MANAGEMENT

The Group regards its employees as the most valuable asset and an essential element for our development and success. Therefore, the Group is committed to creating a comfortable work environment and benefits for its employees, protecting the employees' rights and interests, work safety and physical and mental health, and providing them diverse training and development opportunities.

4.1 Employment rights and benefits

The Group has always put the rights and benefits of the employees in the first place. In order to protect the rights and interests of the employees, the Group strictly abides by the relevant labour laws and regulations, including but not limited to the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), in terms of employees' recruitment, promotion, remuneration and dismissal. The Group has also formulated a sound human resources system to regulate talent recruitment, employee promotion, compensation and dismissal.

When recruiting talents for the Group's business development, we will first advocate recruiting or deploying talents internally, and then recruiting externally, in order to give priority to the current employees. We adopt a fair and open recruitment principle, and will only arrange interviews for suitable candidates based on the requirements of the relevant positions and the level of experience, professional knowledge and skills of the candidates, regardless of factors such as age, gender, nationality and religious belief. In order to prevent the misuse of child labour, the Group will check the applicant's identify card, education certificate and other documents to ensure that the applicant's age, identity, education background and appearance correspond with the documents provided, and meet the minimum legal working age required by the PRC labour laws. If any non-compliance case is found, the Group will immediately dismiss the relevant personnel who have made irregular recruitment, and properly handle the personnel recruited, and transfer them to the judicial authority if necessary.

As an equal opportunity and anti-discrimination employer, the Group has formulated an Equal Employment Policy (《平等僱傭政策》) to ensure that its employees are not discriminated against on the basis of gender, pregnancy, marital status, disability, family status or race in any way. The Group is committed to providing its employees with equal and fair promotion opportunities, training and treatment. In the event that an employee is being discriminated against, harassed or vilified during employment, he/she may bring the matter to the attention of the Group through the complaint channels. All complaints and related files and interviews will be kept strictly confidential. The Group will handle the complaint in a fair and impartial manner. In addition, the Group actively creates an inclusive employment environment and, wherever possible, we will make special arrangements for persons with disabilities so that they can enjoy the same facilities as able-bodied persons.

In order to care for its employees and motivate them to work actively, the Group not only offers competitive remuneration to its employees, but also provides them with diversified benefits. We provide five basic social insurances, which cover pension, medical, maternity, unemployment and work-related injuries and housing provident fund for the employees, and provide our regular employees with medical examinations every two years. The Group also provides its regular employees free non-material medical treatments and surgeries and will only charge the relevant employees the cost of materials for material treatment and surgeries. The Group provides meals, food and beverage subsidies for the employees of its aesthetic medical hospitals and out-patient departments. The Group also provides its employees with sufficient rest time, as well as personal leave, sick leave, marriage leave, maternity leave, funeral leave and annual leave. In addition, the Group lists the weekly and daily work hours of the employees in the Employee Handbook, and provides compensatory leave or allowances to the employees who need to work overtime to avoid forced labour. In addition, we pay holiday pay to the employees for working during important festivals and regularly organize group activities or dinners to enhance communication among the employees and their sense of belonging to the Company.

Case sharing 1 – Team Building Activities and Gatherings

The Group regularly organizes team building activities and gatherings to enhance communication among the employees and a sense of belonging to the Company. In addition, by organizing such activities, we encourage collaboration, enhance work efficiency and foster a positive and enjoyable working environment.

Picture: Company's annual party

Picture: Staff banquet

If an employee resigns, the Group will follow with the appropriate resignation procedures in accordance with the Management System for Employee Resignation (《員工離職管理制度》) and conduct an exit interview with the employee to understand his/her reasons for resignation and his/her comments and suggestions on the Group.

During the Year, the Group did not experience any major violations related to employment laws and regulations.

4.2 Employment Statistics

As at the end of the Year, the Group had a total of 335 employees. The detailed employment data by different categories are as follows:

Employment Information	2023 Number of employees (% of total employees)	2022 Number of employees (% of total employees)
Gender		
Male	**60 (18)**	73 (23)
Female	**275 (82)**	249 (77)
Age		
Below 30	**147 (44)**	155 (48)
30 to 50	**161 (48)**	128 (40)
Above 50	**27 (8)**	39 (12)
Geographical location		
The PRC	**335 (100)**	322 (100)
Hong Kong	**0 (0)**	0 (0)
Employment type		
Permanent employees	**335 (100)**	322 (100)
Temporary employees	**0 (0)**	0 (0)

During the Year, the Group's turnover rate of employees is as follows:

Turnover of employees *(Note 1)*	2023 (%)	2022 (%)
Gender		
Male	**35**	16
Female	**58**	52
Age		
Below 30	**62**	36
30 to 50	**48**	27
Above 50	**24**	6
Geographical location		
The PRC	**53**	34
Hong Kong	**0**	0

Note:

1. *The turnover rate is calculated with reference to Reporting Guidance on Social KPIs issued by the Hong Kong Stock Exchange. The calculation formula is: the number of resigned employees in the specified category/the total number of employees in the specified category × 100. In addition, due to the Group's business nature, resigned employees include services staff who were unable to pass their probation periods, therefore resulting in a higher turnover rate.*

4.3 Occupational Health and Safety

The occupational safety of our employees is essential to the operation of the Group. The Group has strictly abided by the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and other occupational health and safety related laws and regulations, and has provided the employees responsible for diagnosis and treatment the use of treatment equipment such as personal protective equipment, emergency response procedures and disease prevention, and operating safety guidelines covering occupational safety issues.

In order to reduce the risk of medical staff being infected by the patients during their work, the Group has formulated an Occupational Safety Protection Policy (《職業安全保護制度》) to strengthen the protective measures for medical staff to prevent and respond to occupational safety hazards. Medical staff are required to follow the standard prevention principle and take appropriate protective measures. For example, medical staff are required to wear personal protective equipment such as impervious gloves, masks, goggles and face shields when discharging their duties; ensure sufficient light in the treatment room to avoid being stabbed or scratched by sharp instruments such as needles and blades when performing invasive clinics and nursing care; put used sharp instruments directly into puncture-resistant and anti-leakage sharp boxes, or use needle handling equipment for safe disposal. In the event that a medical staff has accidentally polluted the skin or mucous membranes by the blood and body fluids of a virus-infected person in the course of work, or has been pierced by a sharp instrument which has been contaminated by blood and body fluids containing bacteria, the medical staff should immediately follow the internal guidelines to treat the wound or the contaminated part in order to reduce the virus infection and arrange for timely diagnosis and observation by professional medical institutions.

We understand that the process of processing medical waste will also bring potential safety hazards to employees. Therefore, we disinfect temporary storage sites of medical waste every day and provide our safety protection and emergency handling and other knowledge training for the personnel and management personnel engaged in the classified collection, transportation, temporary storage and disposal of medical waste. All the employees are required to wear personal protective equipment such as surgical masks, aprons and latex gloves when collecting medical waste to reduce the risk of infection. In addition to covering work links or activities with major safety risks and hazards, the Group also formulates corresponding contingency plans for all possible emergencies such as fires and explosions in its emergency response procedures. At the same time, the Group provides its employees with detailed emergency handling procedures to minimize the losses caused by emergencies. We organize emergency drills on a regular basis to ensure that the employees understand the escape routes when accidents occur and reduce casualties.

During the Year, the Group's number of working days lost due to work-related injuries is 0, and the data of the Group's work-related fatalities in the last three years is as follows:

Work-related fatalities	**2023**	2022	2021
Number of work-related deaths (person)	**0**	0	0
Rate of work-related deaths (%)	**0**	0	0

4.4 Staff Development and Training

The Group believes that the career development of the employees is an important cornerstone for the success of its business. Therefore, the Group attaches great importance to the individual development of the employees. We not only create a clear career development path for all types of talents, but also encourage our talents to grow and progress through performance evaluation, job selection and training, and contribute to the sustainable corporate development.

The Group has established a Performance Management Policy (《績效管理制度》) to set different performance targets for the employees based on their positions in the Group. We comprehensively assess the work performance of the employees based on the principles of "justice, openness, fairness", teamwork and objectivity, and provide guidance and assistance for the employees to improve their performance, while encouraging the employees to continue learning and progress. The results of the performance appraisal will serve as an important basis for promotion, position transfer, selection of annual outstanding employees, salary adjustments and year-end bonuses. Employees who continuously failed to meet the performance appraisal requirements may be demoted or dismissed.

The Group provides its employees with diversified training opportunities which aimed at assisting their overall development, while improving their management capabilities and work efficiency and to enhance the competitiveness of the Group. Based on the six training principles of all-staff, pertinence, planning, whole process, comprehensiveness and follow-up, the Group has formulated and strictly implemented suitable training plans for all its employees to ensure that all the employees will successfully participate in the training and evaluate the training effect. The Group also provides professional training on aesthetic medical knowledge, medical safety management, and safe use of medical supplies to the medical staff of its aesthetic medical hospitals and aesthetic medical out-patient departments to enhance their professional knowledge and skills.

The Group formulates training plans every year. Staff training is mainly divided into the following six categories:

1. New employee training: introduce information such as corporate background, corporate culture and relevant internal systems to new recruits.

2. All-employee training: provide training for all employees on quality and management capability improvement or popularization of development strategies, new systems, new policies, etc.

3. TTT training: provide training by external lecturers mainly for our internal trainer teams on training system construction, teaching skills, course development, courseware production, etc.

4. Talent echelon training: provide training mainly for college students and internal reserve cadres on career planning for the purpose of building the talent echelon, which consists of internal training and external training.

5. Department training: provide job skills improvement training by each department based on the work of the department.

6. External training: arrange external learning for the employees holding management positions or the employees recommended by departments, covering various forms of full-time learning, MBA programs, skill upgrading classes, etc.

During the Year, details of the training provided by the Group are as follows:

Training	2023 Average training hours for employees (% of employees trained)	2022 Average training hours for employees (% of employees trained)
Gender		
Male	**60 (100)**	46 (100)
Female	**64 (100)**	48 (100)
Employee Function		
Management	**50 (100)**	40 (100)
Physicians and medical staff	**64 (100)**	60 (100)
Sales, marketing and customer service staff	**40 (100)**	40 (100)
Finance, human resources and administration staff	**60 (100)**	20 (100)

Case sharing 1 – CPR Operation Drill and Training

During the Year, the Group's aesthetic medical hospital in Hangzhou and the aesthetic medical out-patient departments in Rui'an and Wuhu organized cardiopulmonary resuscitation ("CPR") operation drilled training for their staff, aiming to consolidate the safety of medical work and to equip medical staff with CPR operation skills and the knowledge to respond to emergency situations. In order to ensure that the trainees will receive adequate CPR training, in addition to providing CPR operation videos, the trainees have also used designated props for operation practice. After the completion of the training, all the trainees passed the training assessment and successfully mastered the CPR operating skills and methods.

Case sharing 2 – Training on YI Crown PLLA Gel (童顏水凝)

During the Year, the Group organized a training on "YI Crown PLLA gel", aiming to enable its trainees to gain in-depth knowledge of the product, enhance their sales skills and improve their sensitivity and analytical ability to customers' needs, so that they could be more confident in selling the product to customers and increase customers' purchase intention. It is very beneficial for improving sales performance and increasing the market share of the product.

Picture: an on-site training course

Case sharing 3 – Training on "Three Rationalities"

"Three Rationalities" refer to rational use of medicines, rational examination and rational treatment, which have a significant impact on the health and treatment of patients. In order to optimize the quality of medical treatment, reduce medical risks and improve patient satisfaction, the Group organized a training course on " Three Rationalities" during the Year. In the process of training, the trainees ascertained their proper understanding and application through theory learning, case studies and assessments.

The Group hopes this training could enable its staffs to make more scientific and accurate choices in medicines, examinations and treatment, so as to improve efficacy of treatment and safety.

Picture: an on-site training course

5. OPERATING PRACTICES

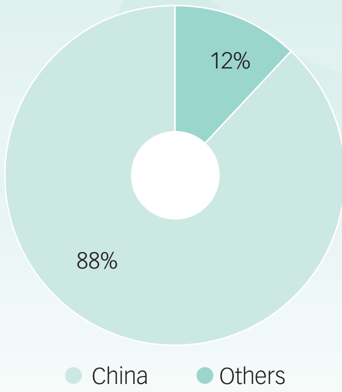
The major business of the Group is the provision of aesthetic medical services, and the provision of quality services to customers is the Group's top priority. Therefore, the Group is committed to properly manage the supply chain, provide high-quality services and maintain good professional ethics.

5.1 Supply Chain Management

As the Group provides aesthetic medical services, which are closely related to the health and safety of its clients, the Group is extremely rigorous in managing its supply chain and has been looking for high-quality aesthetic medical equipment and supplies to ensure customer satisfaction in the process of diagnosis and treatment. Regarding the aesthetic medical equipment, implants, injection materials, medical materials, medicines and other medical consumables used, the Group has formulated a Procurement Management Policy (《採購管理制度》) to standardize the procurement of various materials to reduce potential risks in the procurement process, and to improve the quality and economic efficiency of purchased materials.

In the process of selecting suppliers, the Group takes into account factors such as their product quality, product supply, pricing, reputation, service quality and delivery time, and requires the suppliers to posses the requisite licenses and permits for conducting business, which include GMP certificate, GSP certificate, and authorization letters from product agency manufacturers, etc. The Group also promotes green procurement by giving priority to products and services with energy-efficient labels or logos, higher recycling efficiency, less packaging, longer expiry dates and other products and services with minimum environmental adverse impacts. The Group also attaches great importance to the environmental and social risk management of the suppliers. In terms of protection of the environment, the Group prefers to cooperate with suppliers with sustainable development, and gives priority to suppliers with ISO50001 energy management system certification, ISO14001 environmental management system certification and low-carbon product certification. In terms of social aspects, suppliers with well-established supply chain management system and international standards related to social risk management such as ISO26000 will be given priority. The Group regularly identifies, assesses and monitors the environmental and social risks of the suppliers, and removes suppliers that failed to meet the cooperation standards from the list of qualified suppliers. We only select suppliers that meet the selection criteria to ensure that the purchased materials are of good quality, can reduce the environmental and social risks and the negative impacts brought by the supply chain to the Group, and provide customers with high-quality and safe services.

During the Year, the Group had a total of 75 suppliers (of which 88% are from China and 12% are from the rest of the world) and all the suppliers are required to comply with the Group's supplier management system. The Group purchases aesthetic medical equipment and supplies produced by foreign manufacturers from authorized distributors of foreign manufacturers in the PRC to ensure that the quality and legal supply sources of the purchased materials. For most medical supplies, the Group has multiple suppliers to choose from, and the Group closely monitors the performance of the suppliers to manage risks related to the quality and stability of the supply.



5.2 Quality Control

5.2.1 Material acceptance and storage

In order to ensure that the purchased aesthetic medical equipment and supplies can be used safely, the Group strictly abides by the Pharmaceutical Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》) and other relevant laws and regulations on the quality control of medical drugs, and has formulated a Drugs and Inventory Management Policy (《藥品及庫存物資管理制度》). Strict acceptance procedures of medical supplies will be carried out to inspect the medical supplies' variety, model, specification, quantity, quality, etc., and unqualified supplies will be rejected. For materials that failed to pass the acceptance inspection, the Group will give feedback or arrange for return of the materials to the relevant suppliers. For materials that have passed the acceptance inspection, we will use different storage and treatment methods according to the characteristics of each type of materials, and strictly limit unauthorized personnel to access to drugs and inventory materials. The warehouse management personnel of the Group will conduct regular inventory of materials to verify the accuracy of the asset records, and closely monitor the expiry date of the materials to ensure that no expired materials will be used. If unqualified drugs are found during the work process or during the inventory of materials, the Group will immediately stop using the drugs, and the Group's quality management personnel will find out the reasons for the failure, and will take corrective and preventive measures in a timely manner. All the expired materials or aesthetic medical equipment with expired service life will be disposed of in a safe manner in accordance with applicable laws and regulations and will be revoked accordingly.

In addition, the Group's medical device trading companies have also formulated Medical Device Quality Acceptance Procedures (《醫療器械質量驗收程序》) to standardize the acceptance operation procedures, to carefully verify the appearance, packaging, labels, instructions and relevant supporting documents of the products, and to entrust a third-party medical device testing center to take samples for quality inspection to ensure that the medical supplies accepted meet the requirements of the relevant laws, regulations and statutory standards such as the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》) and the Regulations on the Administration of Instructions and Labels for Medical Devices (《醫療器械説明書和標籤管理規定》). For medical supplies that do not meet the quality standards after the inspection and the testing, the Group will contact the suppliers to arrange for the return of the medical supply.

5.2.2 *Service quality control system*

Quality is the foundation of the development of the Group, and high-quality medical services brings good social and economic benefits to the Group. Therefore, the Group strictly abides by the Administrative Measures for Aesthetic medical Services (《醫療美容服務管理辦法》), Basic Standards for Aesthetic Medical Institutions and Aesthetic medical Departments (Rooms) (Trial) (《美容醫療機構、醫療美容科（室）基本標準（試行）》) and other laws and regulations related to the quality of esthetic medical services. To ensure the safety and quality of our esthetic medical services, our Group has established a comprehensive quality control system for our esthetic medical hospitals and out-patient departments, details of which are as follows:

– Formulate a set of quality control processes in accordance with the 18 core policies relating to the quality of aesthetic medical diagnosis and treatment promulgated by the National Health and Family Planning Commission of the PRC, which include initial diagnosis, ward inspections, consultations, discussions involving customers safety incidents, medical record preservation, preoperative discussion and shift system, etc., and fully implement the quality control process in our aesthetic medical hospitals and out-patient departments;

– unify the operation procedures of customer services, complaints and feedback in our aesthetic medical hospitals and out-patient departments;

– Recruit and retain qualified physicians and medical staff. When recruiting physicians and medical staff, we will evaluate their academic and professional qualifications, relevant work experience and integrity. We will review the performance of the physicians and medical staff every year to ensure that they have comprehensive professional knowledge, have passed the training and received recognition for diagnosis and treatment operations, and are able to provide customers with the necessary combination of diagnosis and treatment recommendations to achieve ideal cosmetic results. We will continue to closely monitor our qualification registration and licensing records to ensure that our physicians and medical staff comply with PRC laws and regulations;

– Each aesthetic medical hospital is required to conduct quality and safety self-examination, assessment and scoring on a regular basis. The Group conducts assessment based on the quality of medical records kept by the medical procedures and the operation safety system and the management of each medical room to remedy the deficiencies in the service process, thereby improving the overall service quality of the Group.

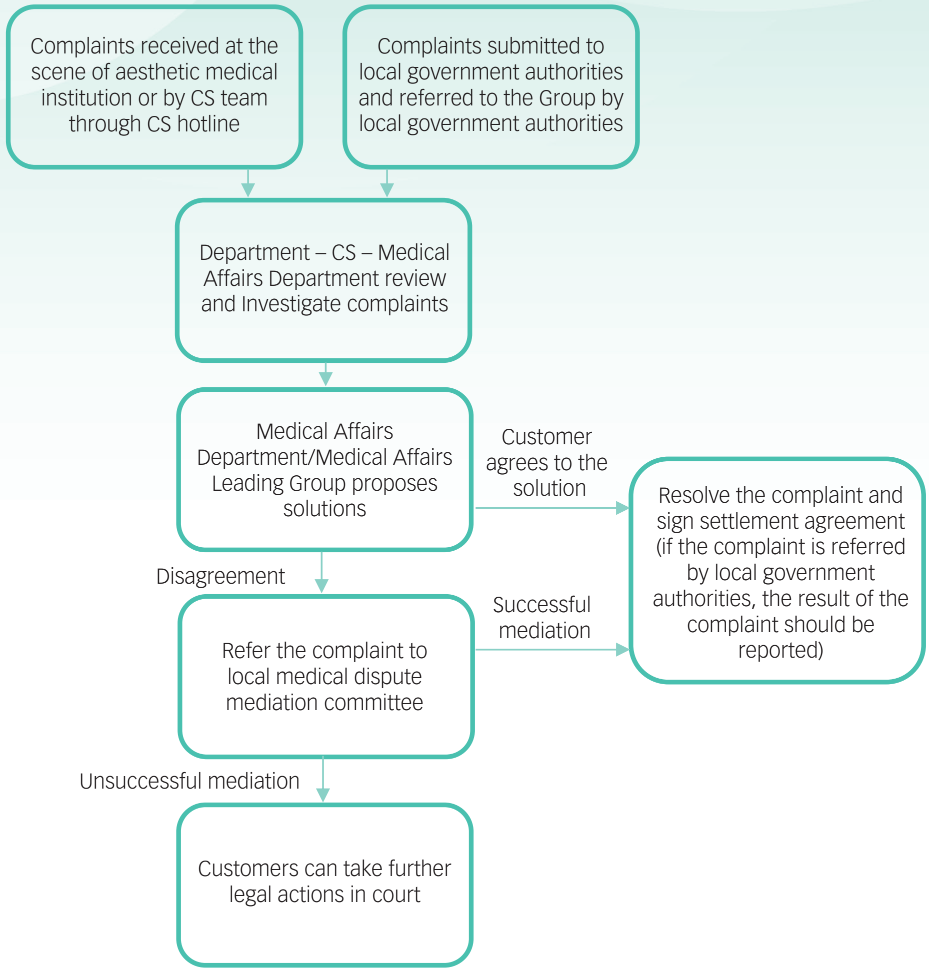
In addition, the Group will formulate annual medical quality management and continuous improvement plans to implement standardized medical quality management in a more accurate and effective manner, so as to ensure that the Group maintains its competitive advantages in the aesthetic medical market, continues to develop, and provides customers with better services.

5.2.3 Customer feedback system

The Group operates in a service industry, which requires frequent communication with customers. The Group always strives for perfection and continuously improves service quality. Therefore, the Group implements a robust customer feedback management system to determine customer satisfaction with the Group's services, and actively manages and responds to customer feedback. Upon completion of the provision of services, each of the Group's aesthetic medical hospitals and out-patient departments will conduct telephone or WeChat follow-up visits through customer service personnel to understand the customers' opinions on the service.

In the process of actively soliciting customer feedback, the Group may encounter various customer concerns and questions, including customers who wish to refund all or part of the service fees before or after the provision of services due to various personal reasons. The Group will explain in detail to resolve customer concerns as much as possible. For customers who are not fully satisfied with all the aspects of the Group's services, such as employee attitude, waiting time before receiving services and discomfort after treatment, the Group has established a complaint management system and process to provide customers with three complaint channels: (i) online and telephone complaints; (ii) on-site complaints, which include medical department complaints and consulting department complaints; and (iii) third party complaints. After receiving medical complaints from customers, the Group will handle the complaints in a rigorous, open, fair, legal and effective manner and look for improvements. Medical safety meetings are held quarterly or whenever necessary to discuss major customer complaints and formulate improvement measures.

The main procedures of the Group's complaint management for medical service are as follow:



During the Year, the Group received a total of 31 customer complaints, mainly related to dissatisfaction with the results of the operation and treatment performance, and the occurrence of minor complications. After thorough investigation and communication with the customers, the Group has made appropriate arrangements such as refund, free repair and complimentary treatment, and all customer complaints have been properly resolved.

For the Group's medical device trading business, we also provide customers with high-quality after-sales services to answer their inquiries, and regularly visit customers to understand their evaluation of the quality of the relevant medical supplies. When customers' request is for product return due to quality problems of medical supplies, the Group's quality control inspectors will carefully check the product name, batch number, quantity and other data, and evaluate the damaged packaging or contamination of the products. The Group will then contact the suppliers to arrange for the return of the medical supplies if there are quality issues with the relevant medical supplies after verification. During the Year, there is no cases of recall of medical supplies sold by the Group due to safety and health reasons, and the Group did not receive any complaints about medical supplies.

5.3 Intellectual Property and Customer Data Protection

The Group is aware of the importance of safeguarding intellectual property rights such as trademark rights and trade secrets, and protects the Group's intellectual property rights when any potential infringements are discovered. The Group strictly abides by the Tort Liability Law of the People's Republic of China (《中華人民共和國侵權責任法》) and other relevant laws and regulations on intellectual property rights, and has formulated and implemented a series of measures to protect intellectual property rights, which include the establishment of a special management department for intellectual property rights, and the provision of special training to strengthen the employees' knowledge of intellectual property rights, and the use of legal litigation methods to protect our intellectual property rights and resolve such disputes. In addition, the Group undertakes to use authentic software and requires the employees to apply to the Company before installing any software to avoid infringing the intellectual property rights of others.

In addition, the Group's Customer Data Security Management Policy (《客戶資料安全管理制度》) aims to ensure that the security of the storage and the use of customer data such as customer personal data and medical records, and clearly sets out the precautions for proper handling of customer data and privacy-related data to reduce the risk of illegal use and leakage of customer data. The Group uses information technology systems to manage customer data, and access to these systems is controlled by security levels and requires authorization. The Group requires the employees to comply with the relevant regulations on confidentiality and file management when handling customer data, and takes encryption, encapsulation and other measures to ensure the security of data transmission process. If any customer information is found to be lost, damaged, leaked or tampered with, the Group will take immediate remedial measures and notify the customers in a timely manner.

5.4 Advertising and Marketing

In order to increase the Group's brand awareness and to promote its esthetic medical services to more customers, the Group uses different media advertisements to promote its brand and services. The Group understands that medical advertising is strictly regulated in the PRC, therefore, it strictly complies with the Advertisement Law of the People's Republic of China (《中華人民共和國廣告法》) and the Measures for the Administration of Medical Advertising (《醫療廣告管理辦法》) and other advertising-related laws and regulations. In order to regulate and legally publish medical advertisements, the Group strictly implements the Release of Medical Advertisement Review Policy (《發佈醫療廣告審核制度》), which sets out the specifications and terms for publishing medical advertisements in detail. All advertising contents must undergo multiple audits to ensure that it complies with legal requirements and is not inaccurate or misleading. The Group also regularly arranges legal advisers to provide the employees training on advertising-related legal knowledge to enhance their legal knowledge and ensure that the advertisements produced comply with the regulatory requirements.

The Group attaches great importance to its sales and marketing strategies. In order to better unify the Group's sales and marketing practices, in addition to regulating advertising, the Group has implemented the following internal control measures to regulate employees' sales and marketing activities:

– The price of the services in the marketing activities should be determined with reference to the price list approved by the Group and the person in charge of each aesthetic medical hospital and out-patient department;

– The discounts offered to the customers must be approved by the head of sales and marketing team;

– Sales and marketing activities must be approved by the Group in advance, and ensure that the services provided come from the service catalog approved by the head of the sales and marketing team; and

– After an event, the remaining gifts and registration forms must be collected and returned to the warehouse after checking.

Managing Inappropriate and Excessive Sales Practices

The Group's remuneration package for our physicians, medical staff and client service personnel includes bonuses that is based on their performance and sales figures. As such, the Group is aware of its exposure to the risk of inappropriate and excessive sales practices, which includes advising clients to purchase unnecessary or unsuitable or inadequate aesthetic medical procedures, in order to boost sales figures. Such practice and behaviour could have a material adverse effect on the Group's market reputation and consumer perception, thereby weakening brand affinity and resulting in a decline in the trust of the Group's existing and potential customers in the Group's services. In order to avoid unscrupulous, inappropriate, and excessive sales practices, the Group has adopted the following control measures:

1. only provide aesthetic surgery services to adults over the age of 18 (for limited aesthetic surgical procedures preferentially conducted at a younger age such as orthodontics and cosmetic dentistry services, persons under the age of 18 are required to be accompanied by their guardians);

2. require customers to complete and sign a registration form to state their personal information as well as the reasons for accepting our aesthetic medical services;

3. verify the identity of the client, explain to the client the objective, process, medical risks, potential side effects, normal recovery period of the operation, and answer any questions that the client may raise and require the client to sign a consent letter prior to the performance of any procedure by the attending physician;

4. strictly prohibit sales on credit or any kind of loans to clients in respect of the service fees, in order to avoid the sale of excessive and unnecessary aesthetic medical procedures to clients; and

5. provide trainings regarding proper sales practices to the Group's sales and marketing team from time to time.

5.5 Anti-corruption

In order to maintain the stability of corporate development and clients' confidence, the Group has cracked down on unethical behaviors such as corruption, and therefore has formulated an Anti-corruption and Other Fraud Policy (《反貪污腐敗等舞弊制度》) to provide the employees with a clear explanation of what constitutes corrupt practices and to provide prevention and control measures against corrupt practices. This Policy aims to regulate the conduct of the employees in the performance of their duties, to promote strict compliance with the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Code of Conduct for Medical Institution Practitioners (《醫療機構從業人員行為規範》) and other anti-corruption laws, regulations, and professional ethics standards, to establish a good culture of integrity and self-discipline, and to prevent occurrence of acts that are detrimental to the interests of the Group and its stakeholders. The Group has also designated a dedicated department to implement the Group's anti-fraud work and provide whistle-blowing channels for all stakeholders of the Group. Stakeholders can report suspicious or confirmed fraud anonymously or in their names. We will keep the reported information strictly confidential and effectively protect the legitimate rights and interests of real-name whistleblowers. Upon receipt of a report, the Group will form a joint investigation team to conduct investigations and to take remedial measures in a timely manner, and will review the loopholes in the original procedures, so as to improve the effectiveness of our internal controls and prevent the recurrence of corruption. Once an investigation is substantiated, any employee who violates the Group's anti-corruption policies will be subject to disciplinary punishment or even dismissal in accordance with the internal regulations. If necessary, the Group will seek assistance from local judicial authorities.

Although the Group did not provide anti-corruption training for employees during the Year, the Group's anti-fraud policy and business code of conduct have been published internally to ensure that the employees understand professional ethics and anti-fraud related policies. In the future, the Group will carry out various anti-corruption-related activities and trainings to strengthen anti-corruption awareness of the employees. During the Year, the Group did not experience any case of violation of laws and regulations on bribery, corruption, extortion, fraud and money laundering.

6. COMMUNITY INVESTMENT

As a community-caring company, the Group attaches great importance to the overall well-being of the surrounding communities where it operates, and hopes that the Group's business can grow together with the community. The Group actively participates in social welfare undertakings, fully fulfills its responsibilities and mission as a corporate citizen, and gives back to the society and the people.

The Group pays special attention to the rights and interests of disabled individuals, and hope to help them integrate into the society without discrimination. Therefore, the Group has formulated comprehensive management measures for the employment of disabled individuals to provide them with equal job opportunities, treatments and benefits. During the Year, the Group has employed three disable individuals to work at its office in Hangzhou (headquarters), the aesthetic medical hospital in Hangzhou and Wuhu Raily Aesthetic Medical Out-patient Department Co., Ltd., respectively for a 3-year work period, and takes this opportunity to listen to the feelings of the disabled individuals and improve the relevant employment and welfare policies.

Looking ahead, the Group look forward to expanding into other areas of community investment to benefit more people in need in the community.

7. APPENDIX I: CONTENT INDEX OF THE "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE"

ESG Indicator	Description	Chapter		Page
A. ENVIRONMENT				
A1 Emissions				
General Disclosure	Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	3.	Environmental Protection	55-60
A1.1	The types of emissions and respective emissions data.	3.1	Pollution and Emission Control	56
A1.2	Direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions and intensity.	3.3	Addressing Climate Change	60
A1.3	Total hazardous waste produced and intensity.	3.1	Pollution and Emission Control	57
A1.4	Total non-hazardous waste produced and intensity.	3.1	Pollution and Emission Control	57
A1.5	Description of emissions target(s) set and steps taken to achieve them.	3.1 3.2	Pollution and Emission Control Resource Usage	55-58
A1.6	Description of how hazardous and non-hazardous waste are handled.	3.1	Pollution and Emission Control	56-58
A2 Use of Resources				
General Disclosure	Policies on the effective use of resources.	3.2	Resource Usage	58-59
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	3.2	Resource Usage	59
A2.2	Water consumption in total and intensity.	3.2	Resource Usage	59
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	3.2	Resource Usage	58-59
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target (s) set and steps taken to achieve them.	3.2	Resource Usage	58
A2.5	Total packaging material used for finished products and with reference to per unit produced.	Since the major business of the Group is to provide aesthetic-related services and related management consulting services, it does not involve the use of any packaging materials.		–

ESG Indicator	Description	Chapter		Page
A. ENVIRONMENT				
A3 The Environment and Natural Resources				
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	3.	Environmental Protection	55-60
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.	Environmental Protection	55-60
A4 Climate Change				
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	3.3	Addressing Climate Change	60
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	By conducting risk assessments related to climate change and considering the nature of the business of the Group, the Group has identified that climate change will not have a significant impact on business operations.		60
B. Social				
B1 Employment				
General Disclosure	Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	4.1	Employment rights and benefits	61-62
B1.1	Total workforce by gender, employment type, age group and geographical region.	4.2	Employment Statistics	63
B1.2	Employee turnover by gender, age group and geographical region.	4.2	Employment Statistics	63

ESG Indicator	Description	Chapter		Page
B. Social				
B2 Health and Safety				
General Disclosure	Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.3	Occupational Health and Safety	64
B2.1	Number and rate of work-related fatalities occurred in each of the past three years.	4.3	Occupational Health and Safety	64
B2.2	Lost days due to work injury.	4.3	Occupational Health and Safety	64
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	4.3	Occupational Health and Safety	64
B3 Development and Training				
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.4	Staff Development and Training	65-67
B3.1	The percentage of employees trained by gender and employment category.	4.4	Staff Development and Training	66
B3.2	The average training hours completed per employee by gender and employee category.	4.4	Staff Development and Training	66
B4 Labour Standards				
General Disclosure	Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	4.1	Employment rights and benefits	61-62
B4.1	Description of measures to review employment practices to avoid child and forced labour.	4.1	Employment rights and benefits	61-62
B4.2	Description of steps taken to eliminate such practices when discovered.	4.1	Employment rights and benefits	61-62

ESG Indicator	Description	Chapter		Page
B. Social				
B5 Supply Chain Management				
General Disclosure	Policies on managing environmental and social risks of the supply chain.	5.1	Supply Chain Management	68-69
B5.1	Number of suppliers by geographical region.	5.1	Supply Chain Management	68-69
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	5.1	Supply Chain Management	68
B5.3	Description of practices to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	5.1	Supply Chain Management	68
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	5.1	Supply Chain Management	68
B6 Product Responsibility				
General Disclosure	Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	5. 5.2 5.3 5.4	Operating Practices Quality Control Intellectual Property Rights and Customer Data Protection Advertising and Marketing	69-74
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	5.2	Quality Control	72
B6.2	Number of products and service related complaints received and how they are dealt with.	5.2	Quality Control	71-72
B6.3	Description of practices relating to observing and protecting intellectual property rights.	5.3	Intellectual Property Rights and Customer Data Protection	73
B6.4	Description of quality assurance process and recall procedures.	5.2	Quality Control	69-70
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	5.3	Intellectual Property Rights and Customer Data Protection	73

ESG Indicator	Description	Chapter		Page
B. Social				
B7 Anti-corruption				
General Disclosure	Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	5.5	Anti-corruption	75
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	5.5	Anti-corruption	75
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	5.5	Anti-corruption	75
B7.3	Description of anti-corruption training provided to directors and staff.	The Group has not held anti-corruption related trainings during the Year.		–
B8 Community Investment				
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6.	Community Investment	75
B8.1	Focus areas of contribution.	6.	Community Investment	75
B8.2	Resources contributed to the focus area.	6.	Community Investment	75

DIRECTORS' REPORT

The Board is pleased to submit the Group's annual report and the audited consolidated financial statements for the Year.

PRINCIPAL ACTIVITIES

The Group is a leading aesthetic medical service provider in Zhejiang Province, the PRC, providing clients with a broad range of aesthetic medical services to meet their different aesthetic and anti-aging objectives. In 2023, the main business of the Group was the provision of aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services. Details of the key subsidiaries of the Group in 2023 are set out in Note 1 to the financial statements.

SUMMARY OF RESULTS

The results of the Group in 2023 are set out in the consolidated statement of profit or loss on page 102 of this annual report.

The Group's revenue and results are mainly derived from the aesthetic medical services provided by 4 aesthetic medical institutions. A detailed review of the business development of the Group in 2023 and the possible future outlook are set out in the section "Management Discussion and Analysis" of this annual report.

FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group is set out on page 184 of this annual report. This summary does not form part of the audited consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for 2023 is set out in the section headed "Management Discussion and Analysis" on pages 11 to 28 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During 2023, the Group is not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company recognises its responsibility to protect the environment from its business activities. The Company is committed to the sustainable development of the environment and our society. The Group has endeavoured to comply with the laws and regulations regarding environmental protection and adopted effective environmental practices to ensure that our business meets the required standards and ethics in respect of environmental protection. Information on environmental policies and performance of the Group are set out in the Environment, Social and Governance Report on pages 52 to 80 of this annual report.

RELATIONSHIP WITH STAKEHOLDERS

The success of the Group relies on the support of key stakeholders, including the Directors and senior management members, employees, clients and suppliers.

Employees

As of 31 December 2023, the Group has 335 employees, all of whom are located in the PRC. Specifically, there are 6 management staff, 124 physicians and medical staff, 167 sales, marketing, client service and other business staff, 38 finance and administration staff. We believe we have a good relationship with our employees. Our employees are not represented by a labour union. During the Year, we have not experienced any material disruptions to our business operations due to labour disputes or strikes. We contribute to social security insurance and housing provident funds for our employees under relevant PRC laws, rules and regulations.

We value the importance of providing a safe, healthy and efficient work environment for all of our employees. We also place significant emphasis on employee trainings and development, and we invest in education and training programs for our employees with the purpose of upgrading their knowledge on the latest development of the aesthetic medical industry.

Customers

During 2023, all of our aesthetic medical service clients are individual retail clients, the clients of our aesthetic medical management consulting services are aesthetic medical institutions, and the clients of our sales of medical aesthetic equipment and products are sales agencies and individual retail clients. Our high quality services and stringent safety controls have translated into our low number of client complaints and high number of repeat clients.

Suppliers

The supplies required in our operations primarily include those who provide implants, injection materials, pharmaceuticals, other medical consumables and medical aesthetic skincare products.

MAJOR CUSTOMERS AND SUPPLIERS

In 2023, the total revenue or sales attributable to the five largest clients of the Group accounted for less than 30% of the total revenue of the Group.

In 2023, the purchase amount from the five largest suppliers of the Group accounted for approximately 40.21% of the Group's total purchase amount; and the purchase amount from the largest supplier of the Group accounted for approximately 15.4% of the Group's total purchase amount.

In 2023, to the best knowledge of the Directors, none of the Directors, their close associates, or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest clients or suppliers.

PROPERTIES AND EQUIPMENT

Details of the changes in the properties and equipment of the Group for the year ended 31 December 2023 are set out in Note 13 to the financial statements.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "2024 AGM") will be held on Friday, 28 June 2024. A notice convening the 2024 AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 June 2024 to Friday, 28 June 2024, both days inclusive, in order to determine the identity of the shareholders of the Company who are entitled to attend the forthcoming 2024 AGM to be held on Friday, 28 June 2024. To be eligible for attending and voting at the 2024 AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Monday, 24 June 2024.

RESERVES

The changes in the Group's reserves during 2023 are set out in the consolidated statement of changes in equity on page 105.

DIVIDENDS

During 2023, the Board did not distribute dividends to the shareholders of the Company (2022: Nil).

SUBSIDIARIES

Details of the Company's subsidiaries are set out in Note 1 to the financial statements.

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

During 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

SHARE CAPITAL

Details of the changes in the Company's share capital during the Year are set out in Note 29 to the financial statement.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report, no equity-linked agreements have been entered into during the Year or subsisted at the end of 2023.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has maintained appropriate liability insurance for its Directors and senior management.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on 28 December 2020, and after exercising the over-allotment option, a total of 376,540,000 shares were issued. After deducting the underwriting commission and related expenses, the net proceeds raised from the listing was approximately HK$81.7 million (the "Net Proceeds"). We will gradually use the Net Proceeds from the global offering in the manner set out in the section "Future Plans and Use of Proceeds" in the Prospectus. For details of the utilization of the Net Proceeds, please refer to the section headed "Management Discussion and Analysis".

DIRECTORS

The Directors during 2023 and up to the date of this annual report are as follows:

Executive Directors
Mr. Fu Haishu *(Chairman)*
Mr. Song Jianliang *(Chief Executive Officer)*
Mr. Wang Ying

Independent Non-executive Directors
Mr. Cao Dequan
Ms. Yang Xiaofen
Mr. Liu Teng

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any service contract with the Company which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

Our Remuneration Committee was established in compliance with the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board regarding our policy and structure for the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies, and to make recommendations to the Board on the remuneration packages of our Directors and senior management and on the employee benefit arrangement.

Under the Remuneration Policy of the Company, the Remuneration Committee will consider factors such as corporate and individual key performance, remuneration paid by comparable companies and other economic factors. Details of the Directors' remuneration and the five highest paid individuals are set out in notes 8 and 9 to the financial statements, respectively.

INDEPENDENCE CONFIRMATION LETTERS FORM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from all INEDs the annual independence confirmations on each of the factors mentioned in Rules 3.13(1) to (8) of the Listing Rules. The Company believes that all INEDs are independent.

MANAGEMENT CONTRACTS

In 2023, the Company did not enter into any contract, other than the service contracts with the Directors or any person engaged in the full-time employment of the Company, whereby any individual, firm or body corporate undertakes the management and administration of the whole, or any substantial part of any business of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or the controlling shareholders of the Company had a material interest, whether directly or indirectly during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2023, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Section XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long Positions in Shares, Underlying Shares and Debentures of the Company

Name	Capacity/Nature of interests	Number of shares held	Approximate percentage of the interest in the Company[1]
Mr. Fu Haishu[2]	Interest in a controlled corporation	1,109,283,463	53.10%
Mr. Song Jianliang[3]	Beneficial owner	1,000,000	0.05%
Mr. Wang Ying[3]	Beneficial owner	1,000,000	0.05%

Notes:

1. *The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2023 (i.e. 2,089,040,000 shares).*

2. *These shares are held by Ruide Consultation Limited, a company wholly-owned by Mr. Fu Haishu.*

3. *These shares of the Company represent the share options granted by the Company on 23 August 2021 under the share option scheme adopted by the shareholders of the Company on 4 December 2020 (the "Share Option Scheme").*

Long Positions in Shares, Underlying Shares and Debentures in the associated corporation

Name of Director	Name of the associated corporation	Capacity/Nature of interests	Number of ordinary share(s) held	Approximate percentage of the total issued shares of the associated corporation
Mr. Fu Haishu	Ruide Consultation Limited	Beneficial owner	50,000	100%

Save as disclosed above, as at 31 December 2023, none of the Directors and chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to be owned under the relevant provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR BONDS

Save as disclosed in this annual report and the Prospectus, none of the Company, any of its holding companies, subsidiaries or fellow subsidiaries have entered into any arrangement at any time during the Year, so that the Directors or chief executives of the Company or any of their respective spouses or children under the age of 18 may gain benefits by purchasing shares or bonds of the Company or any other corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2023, the interests or short positions of substantial shareholders of the Company and other persons in the shares or underlying shares of the Company as recorded in the register maintained by the Company under Section 336 of the SFO, or otherwise notified to the Company were as follows:

Substantial Shareholders' and Other Person's Long Positions in Shares and Underlying Shares of the Company

Name	Capacity/Nature of interests	Number of shares held	Approximate percentage of the interest in the Company[1]
Ruide Consultation Limited	Beneficial owner	1,109,283,463	53.10%
Jin Chunmiao[2]	Interest of spouse	1,109,283,463	53.10%
Beauty Milkway (HK) LIMITED	Beneficial owner	129,128,745	6.18%
China Orient Asset Management (International) Holding Limited[3]	Interest in a controlled corporation	112,244,454	5.37%
China Orient Asset Management Co., Ltd.[3]	Interest in a controlled corporation	112,244,454	5.37%
Dong Yin Development (Holdings) Limited[3]	Interest in a controlled corporation	112,244,454	5.37%
Wise Leader Assets Ltd.[3]	Interest in a controlled corporation	112,244,454	5.37%
上海東𡒉健康管理合夥企業（有限合夥）[3]	Beneficial owner	112,244,454	5.37%
東方資產管理（中國）控股有限公司[3]	Interest in a controlled corporation	112,244,454	5.37%
深圳東方創業投資有限公司[3]	Interest in a controlled corporation	112,244,454	5.37%
深圳前海財富東方股權投資基金管理有限公司[3]	Interest in a controlled corporation	112,244,454	5.37%
青海省東方藏醫藥產業發展基金（有限合夥）[3]	Interest in a controlled corporation	112,244,454	5.37%
青海省東方藏醫藥產業投資管理有限公司[3]	Interest in a controlled corporation	112,244,454	5.37%

Notes:

1. *The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2023 (i.e. 2,089,040,000 shares).*

2. *Ms. Jin Chunmiao is the spouse of Mr. Fu Haishu, and is therefore deemed to be interested in the shares deemed or taken to be owned by Mr. Fu under the SFO.*

3. *According to information available to the Company, 112,244,454 Shares are held by 上海東爐健康管理合夥企業(有限合夥) in the capacity of beneficial owner. 上海東爐健康管理合夥企業(有限合夥) is owned as to approximately 99.81% and approximately 0.19% by 青海省東方藏醫藥產業發展基金(有限合夥) and 青海省東方藏醫藥產業投資管理有限公司 respectively. 青海省東方藏醫藥產業發展基金(有限合夥) is owned as to approximately 48.78% and approximately 2.44% by 深圳東方創業投資有限公司 and 青海省東方藏醫藥產業投資管理有限公司respectively. 青海省東方藏醫藥產業投資管理有限公司 is owned as to approximately 51% by 深圳前海財富東方股權投資基金管理有限公司. 深圳東方創業投資有限公司 is wholly-owned by 東方資產管理(中國)控股有限公司. 深圳前海財富東方股權投資基金管理有限公司 and 東方資產管理(中國)控股有限公司 is wholly-owned by China Orient Asset Management (International) Holding Limited. Each of Dong Yin Development (Holdings) Limited and Wise Leader Assets Ltd. owns 50% of China Orient Asset Management (International) Holding Limited. Wise Leader Assets Ltd. is wholly-owned by Dong Yin Development (Holdings) Limited, which is wholly-owned by China Orient Asset Management Co., Ltd.*

   Each of 上海東爐健康管理合夥企業(有限合夥), 青海省東方藏醫藥產業發展基金(有限合夥), 青海省東方藏醫藥產業投資管理有限公司, 深圳東方創業投資有限公司, 東方資產管理(中國)控股有限公司, China Orient Asset Management (International) Holding Limited, Dong Yin Development (Holdings) Limited, Wise Leader Assets Ltd. and China Orient Asset Management Co., Ltd. is deemed to be interested in 112,244,454 Shares held by 上海東爐健康管理合夥企業(有限合夥) under the SFO.

Save as disclosed above, as at 31 December 2023, there are no other interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO.

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the shareholders of the Company on 4 December 2020. The Share Option Scheme is established to recognize and acknowledge the contributions that the Eligible Participants (as defined below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and

(ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "Eligible Participants") to subscribe for such number of new shares of the Company (the "Shares") as the Board may determine at an exercise price(Remark):

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any directors (including independent non-executive directors) of our Company or any of its subsidiaries; and

(iii) any advisers, consultants, agents, suppliers, clients, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company and/or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK$1 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following the Listing, being 205,500,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of our Shares in issue as at the date of the approval by our Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

The total number of shares available for issue upon exercise of the outstanding Share Options and the Share options to be granted under the Share Option Scheme is 205,500,000 shares of the Company, representing approximately 9.84% of the total number of shares of the Company in issue as at the date of this annual report.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of our Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the approval of our Shareholders in general meeting with such Eligible Participant and his/her close associates (as defined in the Listing Rules) (or his/her associates if the Eligible Participant is a core connected person) abstaining from voting.

The exercise price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the highest of:

(i) the official closing price of our Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of our Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other share option schemes of our Company in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of our Shares in issue on the date of such grant; and

(ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of our Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which the grantee, his/her associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time[Remark].

An option may be exercised in accordance with the terms of the Share Option Scheme at any time commencing the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period commencing on the Listing Date and ending on the tenth anniversary of the Listing Date (both dates inclusive), after which no further options shall be offered but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Share Option Scheme.

						Number of share options				
Name or category of grantees	Date of grant of share options	Exercise price (HK$)	Vesting period	Exercise period	Balance as at 01.01.2023	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Balance as at 31.12.2023
Directors										
Song Jianliang	23/08/2021	0.4920	23/08/2021-22/08/2022	23/08/2022-22/02/2023	1,000,000	–	–	1,000,000	–	–
	23/08/2021	0.4920	23/08/2021-22/08/2023	23/08/2023-22/02/2024	1,000,000	–	–	–	–	1,000,000
Wang Ying	23/08/2021	0.4920	23/08/2021-22/08/2022	23/08/2022-22/02/2023	1,000,000	–	–	1,000,000	–	–
	23/08/2021	0.4920	23/08/2021-22/08/2023	23/08/2023-22/02/2024	1,000,000	–	–	–	–	1,000,000
Other employees										
In aggregate	23/08/2021	0.4920	23/08/2021-22/08/2022	23/08/2022-22/02/2023	5,300,000	–	–	5,300,000	–	–
	23/08/2021	0.4920	23/08/2021-22/08/2023	23/08/2023-22/02/2024	5,300,000	–	–	550,000	–	4,750,000
	29/08/2022	0.1678	29/08/2022-28/08/2023	29/08/2023-28/08/2032	287,814	–	–	–	–	287,814
	29/08/2022	0.1678	29/08/2022-28/08/2024	29/08/2024-28/08/2032	287,814	–	–	–	–	287,814
	29/08/2022	0.1678	29/08/2022-28/08/2025	29/08/2025-28/08/2032	431,722	–	–	–	–	431,722
	29/08/2022	0.1678	29/08/2022-28/08/2026	29/08/2026-28/08/2032	431,722	–	–	–	–	431,722
Service Providers										
In aggregate	23/08/2021	0.4920	23/08/2021-22/08/2022	23/08/2022-22/02/2023	40,680,462	–	–	40,680,462	–	–
	23/08/2021	0.4920	23/08/2021-22/08/2023	23/08/2023-22/02/2024	40,680,466	–	–	–	–	40,680,466
	29/08/2022	0.1678	29/08/2022-28/08/2023	29/08/2023-28/08/2032	21,600,000	–	–	–	–	21,600,000
	29/08/2022	0.1678	29/08/2022-28/08/2024	29/08/2024-28/08/2032	21,600,000	–	–	–	–	21,600,000
	29/08/2022	0.1678	29/08/2022-28/08/2025	29/08/2025-28/08/2032	32,400,000	–	–	–	–	32,400,000
	29/08/2022	0.1678	29/08/2022-28/08/2026	29/08/2026-28/08/2032	32,400,000	–	–	–	–	32,400,000
Total					**205,400,000**	**–**	**–**	**48,530,462**	**–**	**156,869,538**

As at the beginning of 2023, the number of options available for grant under the Share Option Scheme is 100,000 Shares. As at the end of 2023, the number of options available for grant under the Share Option Scheme is 48,630,462 Shares. The number of Shares that may be issued in respect of options granted under all share option schemes of the Company during 2023 divided by the weighted average number of issued Shares for the Year is 0.0785.

The model used to calculate the fair value of the options granted on 23 August 2021 and 29 August 2022 is binomial option pricing model. The model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. Further details are set out in Note 30 to the financial statements.

Remarks:

1. Pursuant to Rule 17.03A of the Listing Rules, the participants of a scheme shall only comprise directors and employees of the issuer or any of its subsidiaries and the persons who provide services to the issuer group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the issuer group.

2. Pursuant to Rule 17.03F of the Listing Rules, the vesting period for options shall not be less than 12 months.

3. Pursuant to Rule 17.04(3) of the Listing Rules, where any grant of options or awards to an independent non-executive director or a substantial shareholder of the listed issuer, or any of their respective associates, would result in the shares issued and to be issued in respect of all options and awards granted (excluding any options and awards lapsed in accordance with the terms of the scheme) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of shares in issue, such further grant of options or awards must be approved by shareholders of the listed issuer in general meeting in the manner set out in Rule 17.04(4) of the Listing Rules. Pursuant to Rule 17.04(4) of the Listing Rules, the listed issuer must send a circular to the shareholders. The grantee, his/her associates and all core connected persons of the listed issuer must abstain from voting in favour at such general meeting. The listed issuer must comply with the requirements under Rules 13.40, 13.41 and 13.42 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during 2023 are set out in Note 35 to the financial statements. Such transactions were either (i) fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules; or (ii) did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background and Reasons

We are a leading aesthetic medical service provider in Zhejiang Province, the PRC. According to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021) (the "2021 Negative List"), medical institutions may not be held 100% by foreign investments, and foreign investments are restricted to the form of sino-foreign equity joint venture. In view of the foreign ownership restriction, our provision of aesthetic medical services is subject to foreign investment restriction in accordance with the 2021 Negative List. The entities that we control certain percentage of their shareholding through the contractual arrangements (the "VIE Entities") are Hangzhou Bellafill, Hangzhou Raily and Ruian Raily, which were established under the laws of the PRC. We do not directly own 100% equity interest in the VIE Entities. Hangzhou Bellafill is currently held as to 70% by Raily Beauty Consultation and 30% by Mr. Fu Haishu while each of Hangzhou Raily and Ruian Raily is owned as to 70% by Raily Beauty Consultation and 30% by Ningbo Ruixuan Investment Management Partnership (LLP)*（寧波瑞炫投資管理合夥企業（有限合夥））("Ningbo Ruixuan").

In light of the foreign investment restriction, in order to comply with PRC laws and regulations and maintain effective control over all of our operations as well as to obtain the maximum economic benefits of the VIE Entities, a series of contractual arrangements (the "Contractual Arrangements") have been entered into by, among others, Hangzhou Raily, Hangzhou Bellafill, Ruian Raily and the Registered Shareholders (as defined below) on 1 January 2019. Through shareholdings and the Contractual Arrangements, we have maintained effective control over the financial and operational policies of the VIE Entities and have become entitled to all the economic benefits from their operations.

The existing agreements underlying such Contractual Arrangements with each of the VIE Entities include: (1) Business Cooperation Agreements, (2) Exclusive Option Agreements, (3) Equity Pledge Agreements, and (4) Voting Rights Proxy Agreements. Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into by and among Raily Beauty Consultation, the VIE Entities and the Registered Shareholders; (ii) by entering into the Business Operation Agreements (as defined below) with Raily Beauty Consultation, the VIE Entities will enjoy better management, consultancy and technical support from us as well as better market reputation after the Listing; and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

* For identification purposes only

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the VIE Entities through: (i) our Group's right (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the VIE Entities at the minimum amount of consideration permitted by applicable PRC laws and regulations; (ii) the business structure under which the profit generated by the VIE Entities is substantially retained by our Group; and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the VIE Entities.

We own 70% equity interest in each of the VIE Entities and as a result of the aforementioned Contractual Arrangements. We have obtained control of the remaining equity interest of the VIE Entities through Raily Beauty Consultation. As such, our Company can receive all of the economic interests returns generated by the VIE Entities.

Contractual Arrangements overview

1. Details of the VIE Entities and Registered Shareholders

VIE Entities:	Hangzhou Raily, Hangzhou Bellafill and Ruian Raily
Registered Share-holders:	the shareholders of Hangzhou Bellafill, Hangzhou Raily and Ruian Raily including Mr. Fu Haishu and Ningbo Ruixuan

2. Description of the VIE Entities' business

Our VIE Entities are aesthetic medical services provider in the PRC, according to the 2021 Negative List, medical institutions are restricted to the form of sino-foreign equity joint venture.

3. Summary of terms of contractual arrangements

The Contractual Arrangements which were in place during 2023 are as follows:

(i) Pursuant to the business cooperation agreements dated 1 January 2019 entered into by each of the VIE Entities, its Registered Shareholders and Raily Beauty Consultation (each a "Business Cooperation Agreement", and collectively the "Business Cooperation Agreements"), each of the VIE Entities agreed to engage Raily Beauty Consultation as its exclusive provider of technical support, consultation and other services, including (1) asset and business management consultation; (2) human resources consultation; (3) marketing consultation; (4) advertising support; (5) technical support; (6) medical technical consultation; (7) product quality control support; (8) service quality control support; (9) system integration; (10) material contracts consultation; (11) mergers and acquisitions consultation; and (12) other relevant services requested by each of the VIE Entities from time to time to the extent permitted under PRC laws.

(ii) Pursuant to the Business Cooperation Agreements, Raily Beauty Consultation has the ownership of any and all intellectual property rights developed or created by the VIE Entities during the performance of the Business Cooperation Agreements.

(iii) Each of the VIE Entities, its Registered Shareholders and Raily Beauty Consultation entered into the voting rights proxy agreements (each a "Voting Rights Proxy Agreement", and collectively, the "Voting Rights Proxy Agreements") on 1 January 2019, pursuant to which, each Registered Shareholder, irrevocably appoints Raily Beauty Consultation or its designated directors and their successors (including a liquidator replacing our Directors) but excluding those who are non-independent or those who may give rise to conflict of interests, as his attorney-in-fact to exercise such shareholder's rights in the VIE Entities.

(iv) Raily Beauty Consultation, each of the VIE Entities and its Registered Shareholders entered into the exclusive option agreements (each an "Exclusive Option Agreement", and collectively the "Exclusive Option Agreements") on 1 January 2019, pursuant to which each of the Registered Shareholders agreed to grant Raily Beauty Consultation or its designated third party an exclusive option to transfer their equity interests and/or assets in the VIE Entities to Raily Beauty Consultation and/or a third party designated by it, in whole or in part at any time and from time to time, at the consideration of RMB1 or a minimum purchase price permitted under the PRC laws and regulations.

(v) Raily Beauty Consultation, each of the VIE Entities and its Registered Shareholders entered into the equity pledge agreements (each an "Equity Pledge Agreement", and collectively the "Equity Pledge Agreements") on 1 January 2019, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in the VIE Entities to Raily Beauty Consultation as a first priority security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

For the Year, the VIE Entities paid the service fee of approximately RMB8.8 million to Raily Beauty Consultation under the Business Cooperation Agreements.

The revenue and net loss of the VIE Entities subject to the Contractual Arrangements amounted to approximately RMB144.7 million and RMB11.4 million for the Year, respectively. The total assets and total liabilities of the VIE Entities subject to the Contractual Arrangements amounted to approximately RMB136.8 million and RMB85.4 million as at 31 December 2023, respectively.

Please refer to the section headed "Contractual Arrangements" of the Prospectus for details. Up to the date of this annual report, there is no further update in relation to the foreign ownership restriction.

Risks associated with the Contractual Arrangements

For risks associated with the Contractual Arrangements, please see the section headed "Risk Factors" in the Prospectus for details.

Material change in relation to the Contractual Arrangements

During 2023, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

As regards to the Contractual Arrangements, if and when the Ministry of Commerce, PRC ("MOFCOM") and/or other relevant governmental departments promulgate any measures for the administration of foreign-invested enterprises engaging in aesthetic medical services business or such entities invested by foreign investors, depending on the limit of the percentage equity interest permitted to be held by foreign investors (if any), we will partially unwind the Contractual Arrangements and hold (directly or indirectly) equity interest in the VIE Entities up to the percentage limit prescribed by such measures; and if there is no prescribed limit of the percentage equity interest permitted to be held by foreign investors and that our Company would be allowed to directly hold 100% of the equity interests in the VIE Entities, we will fully unwind the Contractual Arrangements and directly hold the entire equity interest in the VIE Entities.

However, for 2023, none of the Contractual Arrangements had been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements had been removed.

Waiver from the Stock Exchange

The Hong Kong Stock Exchange has granted a waiver to the Company from strict compliance with the connected transactions requirements under Chapter 14A of the Listing Rules in respect of the Contractual Arrangements. For details, please refer to the section "Connected Transactions" in the Prospectus.

Confirmation from Independent Non-executive Directors

The Independent Non-executive Directors have reviewed the Contractual Arrangements and confirmed that during 2023 that (i) the transactions carried out during 2023 have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by the VIE Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and the VIE Entities during the relevant financial period are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.

Confirmations from the Company's Independent Auditors

Ernst and Young, the Company's auditors, has carried out procedures annually to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, Ernst and Young has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in 2023:

(a) nothing has come to their attention that causes the Company's auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;

(b) nothing has come to their attention that causes the Company's auditors to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

(c) nothing has come to their attention that causes the Company's auditors to believe that any dividends or other distributions have been made by the VIE Entities to its registered equity shareholders which are not otherwise subsequently assigned or transferred to the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, at least 25% of the Company's total number of issued shares were held by the public at all times since the Listing Date.

DONATION

During 2023, the Group did not make any donation (2022: Nil).

AUDIT COMMITTEE

Before the Group's annual results for 2023 were approved by the Board, the Audit Committee had reviewed and approved the relevant annual results. The work of the Audit Committee and its composition information are set out in the corporate governance report on pages 41 to 42 of this annual report.

CORPORATE GOVERNANCE

The corporate governance practices of the Company are set out in the corporate governance report on page 35 of this annual report.

AUDITORS

Ernst & Young, Certified Public Accountants, has audited the financial statements for 2023 and will retire at the annual general meeting and is eligible for re-election. The Company will propose a resolution for the re-appointment of Ernst & Young as the Company's auditors at the forthcoming annual general meeting.

By order of the Board

Raily Aesthetic Medicine International Holdings Limited
Fu Haishu
Chairman and Executive Director

Hong Kong, 28 March 2024

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
27/F, One Taikoo Place
979 King's Road,
Quarry Bay, Hong Kong

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香港鰂魚涌英皇道979號
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To the shareholders of Raily Aesthetic Medicine International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Raily Aesthetic Medicine International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 102 to 183, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
As at 31 December 2023, the carrying value of goodwill in the consolidated financial statements amounted to RMB44,822,000. An impairment loss of RMB11,942,000 has been recognised during this year. In accordance with IAS 36 *Impairment of Assets*, the Group is required to perform impairment assessment for goodwill at least on an annual basis. In performing the impairment assessment, the goodwill has been allocated to the corresponding subsidiaries acquired as the acquired subsidiaries are the only cash-generating units that can benefit from synergy of the acquisition. The impairment assessment is based on the recoverable amount of the acquired subsidiaries to which the goodwill is allocated. The recoverable amount of the subsidiaries is their value in use using cash flow projections based on a financial budget covering a 5-year period. This matter was significant to our audit because the impairment assessment process included reviewing profit forecasts, growth rate and discount rate which was complex and involved significant judgements and estimates. The disclosures about impairment of goodwill are included in note 2.4 "Material Accounting Policies", note 3 "Significant Accounting Judgement and Estimates" and note 15 "Goodwill" to the financial statements, which specifically explain the key assumptions management used for the calculation of the recoverable amount.	Our audit procedures included, among others, considering the appropriateness of the allocation of the goodwill to the cash-generating units. With the assistance of our internal valuation specialists, we evaluated the assumptions and methodologies used by the Group, in particular, the discount rate and the growth rate beyond a 5-year period. We paid attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance and the business development plan of the acquired subsidiaries to which the goodwill was allocated. We also focused on the adequacy of the disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of contingent consideration payable for business acquisitions In 2021, the Group recognised contingent consideration payable of approximately RMB29,437,000 arising from the acquisition of Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd. ("Shenzhen Jiumei"), which was measured at fair value through profit or loss. As at 31 December 2023, the total fair value of the contingent consideration amounted to RMB18,436,000. The fair value of the contingent consideration payable is remeasured at each reporting date by the management with the assistance of an external valuer. We focused on this area as the assessment made by management involved significant estimates and judgements in relation to the post-acquisition performance of the acquired business and the discount rates applied, which may be affected by unexpected changes in future market or economic conditions. The disclosures about contingent consideration are included in note 2.4 "Material Accounting Policies", note 3 "Significant Accounting Judgement and Estimates", and note 28 "Contingent consideration" to the financial statements.	Our audit procedures, included among others, examining the terms of the purchase agreement relevant to the valuation of the contingent consideration payable. With the assistance of our internal valuation specialists, we evaluated the valuation methodologies and assumptions used by the Group, in particular, the discount rate and the expected future operating results. We paid specific attention to the forecasts used with respect to future operating results by comparing the forecasts with the historical performance and the business development plan of the acquired subsidiary. We also focused on the adequacy of the Group's disclosures of the contingent consideration payable in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants

Hong Kong
28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	**189,384**	164,522
Cost of sales		**(117,891)**	(97,739)
Gross profit		**71,493**	66,783
Other income and gains	5	**8,774**	8,071
Selling and distribution expenses		**(52,285)**	(49,287)
Administrative expenses		**(40,100)**	(35,882)
Other expenses		**(16,752)**	(6,822)
Research and development expenses		**(1,602)**	(2,000)
Finance costs	7	**(2,798)**	(2,801)
Share of loss of an associate		**(1,740)**	(163)
LOSS BEFORE TAX	6	**(35,010)**	(22,101)
Income tax (expense)/credit	10	**(2,769)**	1,854
LOSS FOR THE YEAR		**(37,779)**	(20,247)
Attributable to:			
Owners of the parent		**(32,457)**	(15,911)
Non-controlling interests		**(5,322)**	(4,336)
		(37,779)	(20,247)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted			
For loss for the year (RMB)		**(7.77) cents**	(3.81) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**50,291**	40,763
Right-of-use assets	*14(a)*	**44,335**	43,243
Goodwill	*15*	**44,822**	56,764
Other intangible assets	*16*	**23,822**	30,467
Investment in an associate	*17*	**706**	3,262
Deferred tax assets	*27*	**9,396**	12,716
Pledged deposits	*21*	**–**	1,543
Other non-current assets		**20,611**	1,333
Total non-current assets		**193,983**	190,091
CURRENT ASSETS			
Inventories and supplies	*18*	**11,438**	12,678
Trade receivables	*19*	**9,499**	5,341
Prepayments, other receivables and other current assets	*20*	**17,304**	15,762
Pledged deposits	*21*	**1,585**	–
Cash and bank balances	*21*	**39,790**	78,779
Total current assets		**79,616**	112,560
CURRENT LIABILITIES			
Trade payables	*22*	**9,502**	9,169
Other payables and accruals	*23*	**23,943**	18,562
Amount due to independent directors		**–**	466
Interest-bearing bank borrowings	*24*	**7,000**	5,000
Contract liabilities	*25*	**20,977**	16,608
Refund liabilities	*26*	**3,204**	4,076
Contingent consideration	*28*	**10,295**	6,386
Lease liabilities	*14(b)*	**10,342**	8,666
Tax payable		**6,896**	7,480
Total current liabilities		**92,159**	76,413
NET CURRENT (LIABILITIES)/ASSETS		**(12,543)**	36,147
TOTAL ASSETS LESS CURRENT LIABILITIES		**181,440**	226,238

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	*14(b)*	**34,442**	34,555
Deferred tax liabilities	*27*	**5,875**	6,625
Contingent consideration	*28*	**8,141**	19,181
Other non-current liabilities		**392**	–
Total non-current liabilities		**48,850**	60,361
Net assets		**132,590**	165,877
EQUITY			
Equity attributable to owners of the parent			
Share capital	*29*	**136,267**	136,267
Other reserves	*31*	**1,848**	29,813
		138,115	166,080
Non-controlling interests		**(5,525)**	(203)
Total equity		**132,590**	165,877

Fu Haishu
Director

Song Jianliang
Director

Wang Ying
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

		Attributable to owners of the parent							
	Notes	Share capital RMB'000 *note 29*	Capital reserves* RMB'000 *note 31*	Share option reserve* RMB'000 *note 30*	Statutory surplus reserve* RMB'000 *note 31*	Retained earnings/ (accumulated loss)* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022		136,267	28,787	1,038	9,351	2,778	178,221	4,133	182,354
Loss for the year		–	–	–	–	(15,911)	(15,911)	(4,336)	(20,247)
Equity-settled share option arrangements	*30*	–	–	3,770	–	–	3,770	–	3,770
At 31 December 2022		136,267	28,787	4,808	9,351	(13,133)	166,080	(203)	165,877
At 1 January 2023		136,267	28,787	4,808	9,351	(13,133)	166,080	(203)	165,877
Loss for the year		–	–	–	–	(32,457)	(32,457)	(5,322)	(37,779)
Equity-settled share option arrangements	*30*	–	–	4,492	–	–	4,492	–	4,492
At 31 December 2023		136,267	28,787	9,300	9,351	(45,590)	138,115	(5,525)	132,590

* *These reserve accounts comprise the consolidated reserves of RMB1,848,000 (2022: RMB29,813,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(35,010)**	(22,101)
Adjustments for:			
Finance costs	*7*	**2,798**	2,801
Share of loss of an associate		**1,740**	163
Loss on write-off of items of intangible assets	*6*	**3,113**	–
(Gain)/loss on disposal of items of property, plant and equipment	*5*	**(155)**	33
Investment income	*5*	**(44)**	(139)
Interest income	*5*	**(791)**	(433)
Depreciation of right-of-use assets	*6, 14*	**10,147**	9,339
Depreciation of property, plant and equipment	*6, 13*	**12,479**	10,313
Provision for impairment of trade receivables and other receivables	*6, 19*	**29**	13
Provision for goodwill	*15*	**11,942**	6,365
Amortisation of intangible assets	*6, 16*	**3,556**	3,541
Lease payments waived	*14*	**–**	(1,127)
Equity-settled share option expense	*30*	**4,492**	3,770
Fair value change in contingent consideration	*5*	**(7,131)**	(3,870)
Gain on foreign exchange differences		**(918)**	(2,790)
Provision for inventories	*18*	**146**	–
Provision for impairment of investment on associates	*17*	**767**	–
		7,160	5,878
Decrease in inventories and supplies		**1,143**	511
(Increase)/decrease in trade receivables		**(3,656)**	269
Increase in prepayments, other receivables and other assets		**(1,542)**	(7,206)
Increase/(decrease) in trade payables		**333**	(3,397)
(Decrease)/increase in an amount due to a director		**(466)**	319
Increase in contract liabilities		**4,369**	1,922
Decrease in refund liabilities		**(872)**	(1,504)
Increase in other long-term payables		**392**	–
Increase in other payables and accruals		**1,944**	1,143
Cash generated from/(used in) operations		**8,805**	(2,065)
Income tax paid		**(786)**	(210)
Net cash flow generated from/(used in) operating activities		**8,019**	(2,275)

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**748**	433
Purchases of items of property, plant and equipment		**(17,999)**	(18,853)
Purchases of items of intangible assets		**(23)**	–
Purchase of financial investments		**(3,000)**	(25,030)
Proceeds from disposal of financial investments		**3,044**	25,169
Proceeds from disposal of items of property, plant and equipment		**317**	–
Redemption of time deposits		**10,772**	18,839
Prepayment for an equity investment		**(20,000)**	–
Net cash flows (used in)/generated from investing activities		**(26,141)**	558
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**19,490**	5,100
Repayments of bank loans		**(17,490)**	(20,100)
Interest paid		**(350)**	(240)
Payments of lease liabilities	*14(b)*	**(12,132)**	(10,411)
Net cash flows used in financing activities		**(10,482)**	(25,651)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(28,604)**	(27,368)
Effect of foreign exchange rate changes, net		**597**	2,790
Cash and cash equivalents at beginning of the year		**43,937**	68,515
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*21*	**15,930**	43,937
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*21*	**39,790**	78,779
Less: Time deposit with maturity of more than 3 months		**(23,860)**	(34,842)
Cash and cash equivalents as stated in the statement of cash flows		**15,930**	43,937

1. CORPORATE AND GROUP INFORMATION

Raily Aesthetic Medicine International Holdings Limited is a limited liability company incorporated in the Cayman Islands on 2 January 2018. The registered office address of the Company is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the provision of aesthetic medical services, sale of aesthetic medical equipment products and consulting services. The Company was listed on the Hong Kong Stock Exchange on 28 December 2020.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Ruide Consultation Limited, which is incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name[1]	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Raily Medical Management Limited ("Raily BVI") 瑞麗醫療管理有限公司	British Virgin Islands	USD50,000	100%	–	Investment holding
Raily Medical Limited ("Raily HK") 瑞麗醫療有限公司	Hong Kong	HK$10,000	–	100%	Consulting service
Hangzhou Raily Beauty Cosmetology Consulting Service Co., Ltd. ("Raily Beauty Consultation") 杭州瑞麗美容諮詢服務有限公司	PRC/Chinese Mainland	RMB20,000,000	–	100%	Investment holding
Hangzhou Raily Aesthetic Medical Hospital Co., Ltd. ("Hangzhou Raily")[5] 杭州瑞麗醫療美容醫院有限公司	PRC/Chinese Mainland	RMB20,000,000	–	100%[2]	Aesthetic medical service
Hangzhou Bellafill Aesthetic Medical Out-patient Department Co., Ltd. ("Hangzhou Bellafill")[5] 杭州貝麗菲爾醫療美容門診部有限公司	PRC/Chinese Mainland	RMB3,333,300	–	100%[2]	Aesthetic medical service
Ruian Raily Aesthetic Medical Out-patient Department Co., Ltd. ("Ruian Raily")[5] 瑞安瑞麗醫療美容門診部有限公司	PRC/Chinese Mainland	RMB20,000,000	–	100%[2]	Aesthetic medical service

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Name[1]	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wuhu Raily Aesthetic Medical Out-patient Department Co., Ltd. ("Wuhu Raily")[5] 蕪湖瑞麗醫療美容門診部有限公司	PRC/Chinese Mainland	RMB685,800	–	70%[3]	Aesthetic medical service
Ningbo Zhuerli Beauty Consulting Service Co., Ltd. ("Ningbo Zhuerli")[5] 寧波珠兒麗美容諮詢服務有限公司	PRC/Chinese Mainland	RMB1,000,000	–	100%	Consulting service
Wuhu Raily Medical Equipment Trade Co., Ltd. ("Raily Equipment")[5] 蕪湖瑞麗醫療器械貿易有限公司	PRC/Chinese Mainland	RMB1,000,000	–	100%	Medical equipment trading
Hainan Bellafill Medical Center Co., Ltd. ("Hainan Bellafill ")[5] 海南貝麗菲爾醫學中心有限公司	PRC/Chinese Mainland	RMB5,000,000	–	100%[4]	Aesthetic medical service
Shenzhen Ruiquan Management Consulting Co., Ltd. ("Shenzhen Ruiquan")[5] 深圳瑞泉管理諮詢有限公司	PRC/Chinese Mainland	RMB10,000,000	–	100%	Consulting service
Hangzhou Ruiquan Medical Equipment Co., Ltd. ("Hangzhou Ruiquan")[5] 杭州瑞泉醫療器械有限公司	PRC/Chinese Mainland	RMB10,000,000	–	100%	Medical equipment trading
Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd. ("Shenzhen Jiumei")[5] 深圳市九美信禾醫療器械有限公司	PRC/Chinese Mainland	RMB1,000,000	–	100%	Medical equipment trading
Suzhou Yonglan Biotechnology Science and Technology Co., Ltd. ("Suzhou Yonglan")[5] 蘇州詠藍生物醫藥科技有限公司	PRC/Chinese Mainland	USD20,000,000	–	100%	Medical equipment manufacturing
Hainan Jiumei Xinhe Medical Equipment Co., Ltd. ("Hainan Jiumei")[4, 5] 海南九美信禾醫療器械有限公司	PRC/Chinese Mainland	RMB1,000,000	–	100%	Medical equipment trading

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

1 *The English names of these entities registered in the People's Republic of China ("PRC") represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.*

2 *Since 1 January 2019, the 30% equity interest in this entity has been attributable to the Company through a variable interest entity ("VIE") agreement.*

3 *Since 1 January 2019, the 30% equity interest in this entity has been attributable to the non-controlling interests.*

4 *Hainan Jiumei Xinhe Medical Equipment Co., Ltd. was established by the Group on 10 March 2023.*

5 *These subsidiaries are registered as limited liability companies under PRC law.*

2. ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) approved by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, financial assets at fair value through profit or loss, equity investments designated at fair value through other comprehensive income and a defined benefit plan. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group had net current liabilities of RMB12,543,000 as at 31 December 2023, among which the current contingent consideration amounting to RMB10,295,000 could be paid by shares. Having taken into account the unused banking facilities and the expected cash flows from operating activities, the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2. ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Basis of consolidation (Continued)

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in accounting policies and disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (Continued)

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately, which have been reflected in the reconciliation disclosed in note 27 to the financial statements. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under IAS 12.

(d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Issued but not yet effective international financial reporting standards

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-Current (the "2020 Amendments")*[1]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1]
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*[1]
Amendments to IAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB. However, the amendments are available for adoption now.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Issued but not yet effective international financial reporting standards (Continued)

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Business combinations and goodwill (Continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Fair value measurement

The Group measures its investments at fair value and its derivative financial instruments at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties under development, completed properties for sales, contract assets, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery equipment	19% to 33.33%
Office and other equipment	19% to 33.33%
Leasehold improvements	20% to 33%
Motor vehicles	19.00% to 23.75%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with definite useful lives are amortised on the straight-line basis over the following useful economic lives.

Software and others	5 to 10 years
Exclusive distribution agreement	10 years

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Working spaces	3 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of rental properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies for "Revenue recognition".

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Normally when contractual payments are 90 days past due, the Group performs analytical review and investigates the reason for the overdue to evaluate if it's in default or not. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, contingent consideration and payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, contingent consideration and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, lease liabilities, other payables and accruals, contingent consideration, amount due to independent directors.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (borrowings)

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventories and supplies

Supplies and inventories, consisting primarily of inventories of pharmaceutical, medical supplies and products, are stated at the lower of cost and net realisable value, which is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liabilities arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Rendering of aesthetic medical services

Revenue from outpatient aesthetic medical services is recognised at the point in time when services is rendered.

The Group provides certain outpatient aesthetic medical services in packages which are accounted for as multiple elements of services. The total transaction prices of the packages are allocated to each service by using its stand-alone selling price. The revenue from each service is recognised when the related service is rendered.

Revenue from inpatient aesthetic medical services is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measures of the value of individual service transferred to the customer.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group adopts the most likely amount method to estimate the variable considerations.

(b) Rendering of consulting services

Revenue from consulting service contracts with fixed terms is recognised over time by reference to the progress towards complete satisfaction of the performance obligation. Revenue from consulting service contracts for training courses, generally within one day, is recognised at the point in time when courses are delivered.

(c) Sales of aesthetic medical equipment products

Revenue from the sales of aesthetic medical equipment products is recognised at the points in time when control of asset is transferred to the customer, generally on the delivery of the aesthetic medical equipment products.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Revenue recognition (Continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Refund liabilities

A refund liability is the constructive obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Employee benefits

The employees of the Group's subsidiaries which operate in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Material accounting policies (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Lease commitments – Group as lessee

The Group has entered into leases of properties with various lessors. The Group has determined the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for refund to customers

The Group estimates variable considerations to be included in the transaction price for the refund to customers in respect of unsatisfactory services rendered.

The Group has developed a statistical model for estimating the refund which is based on the Group's past experience with various groups of customers. Any significant changes in experience as compared to historical patterns will impact the expected refund estimated by the Group. The Group updates its assessment of the expected refund on a regular basis and the refund liabilities are adjusted accordingly.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2023 was RMB44,822,000 (2022: RMB56,764,000). Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of intangible assets (other than goodwill)

The Group determines the estimated useful lives for its intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the amortisation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 27.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Fair value of contingent consideration

The contingent consideration is remeasured at its fair value at each reporting date as detailed in note 28 to the financial statements. The valuation requires the Group to forecast the future performance of the business acquired and determine the key parameters, such as volatility and discount rate, used in the valuation. The Group classifies the fair value of contingent consideration as Level 3. The fair value of the contingent consideration as at 31 December 2023 was RMB18,436,000 (2022: RMB25,567,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has three reportable operating segments as follows:

- Aesthetic medical services comprise principally inpatient services including surgical services and outpatient services including injection service, dermatology service and others.

- Consulting services comprise principally management consulting services.

- Aesthetic medical equipment products comprise principally sales of surgical implants and aesthetic medical skincare products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment operating profit which is calculated based on gross profit less selling and marketing expenses and general and administrative expenses allocated excluding other income and gains, corporate and unallocated expenses, and finance costs (other than interest on lease liabilities).

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude contingent consideration, interest-bearing bank borrowings (other than lease liabilities), amount due to independent directors, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2023	Aesthetic medical services RMB'000	Consulting services RMB'000	Aesthetic medical equipment products RMB'000	Total RMB'000
Segment revenue *(note 5)*:				
Sales to external customers	174,910	–	14,474	189,384
Intersegment sales	–	–	746	746
	174,910	–	15,220	190,130
Reconciliation:				
Elimination of intersegment sales				(746)
Revenue from continuing operations				189,384
Segment results	(13,301)	(57)	2,548	(10,810)
Reconciliation:				
Elimination of intersegment results				(25)
Other income and gains				1,643
Corporate and unallocated expenses				(25,476)
Finance costs (other than interest on lease liabilities)				(342)
Loss before income tax				(35,010)
Segment assets	107,140	14	86,066	193,220
Reconciliation:				
Corporate and other unallocated assets				80,379
Total assets				273,599
Segment liabilities	99,019	57	3,356	102,432
Reconciliation:				–
Corporate and other unallocated liabilities				38,577
Total liabilities				141,009
Other segment information:				
Share of losses of an associate	–	–	1,740	1,740
Impairment losses recognised in profit or loss, net	7,701	–	4,269	11,970
Depreciation and amortisation	22,013	7	4,162	26,182
Capital expenditure*	9,062	166	–	9,228

* *Capital expenditure consists of additions to property, plant and equipment, other non-current assets and intangible assets.*

4. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2022	Aesthetic medical services RMB'000	Consulting services RMB'000	Aesthetic medical equipment products RMB'000	Total RMB'000
Segment revenue *(note 5)*:				
Sales to external customers	151,661	27	12,834	164,522
Intersegment sales	–	–	1,378	1,378
	151,661	27	14,212	165,900
Reconciliation:				
Elimination of intersegment sales				(1,378)
Revenue from continuing operations				164,522
Segment results	(10,067)	(796)	5,818	(5,045)
Reconciliation:				
Elimination of intersegment results				(94)
Other income and gains				4,201
Corporate and unallocated expenses				(20,945)
Finance costs (other than interest on lease liabilities)				(218)
Loss before income tax				(22,101)
Segment assets	109,388	455	93,421	203,264
Reconciliation:				
Corporate and other unallocated assets				99,387
Total assets				302,651
Segment liabilities	82,477	19	6,462	88,958
Reconciliation:				
Corporate and other unallocated liabilities				47,816
Total liabilities				136,774
Other segment information:				
Share of losses of an associate	–	–	(163)	(163)
Impairment losses recognised in profit or loss, net	6,364	–	14	6,378
Depreciation and amortisation	19,220	15	3,958	23,193
Capital expenditure*	18,771	–	82	18,853

* *Capital expenditure consists of additions to property, plant and equipment, other non-current assets and intangible assets.*

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

All significant external customers and non-current assets of the Group are located in Chinese Mainland. Accordingly, no geographical information of external customers or non-current assets is presented.

Information about a major customer

There was no single customer from whom the revenue amounting to 10% or more of the Group's revenue was derived for the years 2023 and 2022.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 **RMB'000**	2022 RMB'000
Revenue from contracts with customers		
Aesthetic medical services	**174,910**	151,661
Aesthetic medical equipment products	**14,474**	12,834
Consulting services	**–**	27
	189,384	164,522

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2023

Segments	Aesthetic medical services RMB'000	Consulting services RMB'000	Aesthetic medical equipment products RMB'000	Total RMB'000
Types of goods or services				
Sale of products	–	–	14,474	14,474
Services	174,910	–	–	174,910
Total revenue from contracts with customers	174,910	–	14,474	189,384
Geographical market				
Chinese Mainland	174,910	–	14,474	189,384
Timing of revenue recognition				
Goods transferred at a point in time	–	–	14,474	14,474
Services transferred at a point in time	133,591	–	–	133,591
Services transferred over time	41,319	–	–	41,319
Total revenue from contracts with customers	174,910	–	14,474	189,384

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(a) Disaggregated revenue information (Continued)

For the year ended 31 December 2022

Segments	Aesthetic medical services RMB'000	Consulting services RMB'000	Aesthetic medical equipment products RMB'000	Total RMB'000
Types of goods or services				
Sale of products	–	–	12,834	12,834
Services	151,661	27	–	151,688
Total revenue from contracts with customers	151,661	27	12,834	164,522
Geographical market				
Chinese Mainland	151,661	27	12,834	164,522
Timing of revenue recognition				
Goods transferred at a point in time	–	–	12,834	12,834
Services transferred at a point in time	106,870	–	–	106,870
Services transferred over time	44,791	27	–	44,818
Total revenue from contracts with customers	151,661	27	12,834	164,522

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(a) Disaggregated revenue information (Continued)

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

For the year ended 31 December 2023

Segments	Aesthetic medical services RMB'000	Consulting services RMB'000	Aesthetic medical equipment products RMB'000	Total RMB'000
Revenue from contracts with customers				
External customers	**174,910**	**–**	**14,474**	**189,384**
Intersegment sales	**–**	**–**	**746**	**746**
Intersegment adjustments and eliminations	**–**	**–**	**(746)**	**(746)**
Total revenue form contracts with customers	**174,910**	**–**	**14,474**	**189,384**

For the year ended 31 December 2022

Segments	Aesthetic medical services RMB'000	Consulting services RMB'000	Aesthetic medical equipment products RMB'000	Total RMB'000
Revenue from contracts with customers				
External customers	151,661	27	12,834	164,522
Intersegment sales	–	–	1,378	1,378
Intersegment adjustments and eliminations	–	–	(1,378)	(1,378)
Total revenue form contracts with customers	151,661	27	12,834	164,522

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(a) Disaggregated revenue information (Continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2023 **RMB'000**	2022 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the reporting period	**16,133**	14,316

	2023 **RMB'000**	2022 RMB'000
Revenue recognised from performance obligations satisfied in previous periods:		
Sale of services not previously recognised due to constraints on variable consideration	**2,798**	4,249

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Rendering of inpatient aesthetic medical services

According to the nature of service, the performance obligation is satisfied over time or satisfied upon completion of service and payment in advance is normally required.

Sale of aesthetic medical equipment products

The performance obligation is satisfied upon delivery of the aesthetic medical equipment products and payment in advance is normally required. Some contracts provide customers with volume rebates which give rise to variable consideration subject to constraint.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(b) Performance obligations (Continued)

The amount of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December is as follows:

	2023 RMB'000	2022 RMB'000
Within one year	**20,977**	16,608

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

An analysis of other income and gains is as follows:

	2023 RMB'000	2022 RMB'000
Other income		
Interest income	**791**	590
Investment income	**44**	139
Government subsidies	**16**	221
Others	**312**	113
	1,163	1,063
Gains		
Fair value gains on contingent consideration	**7,131**	3,870
Gains on foreign exchange differences	**235**	2,644
Gains on derecognition of financial liabilities measured at amortised cost	**90**	494
Gains on disposal of fixed assets	**155**	–
	7,611	7,008
	8,774	8,071

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2023 RMB'000	2022 RMB'000
Cost of supplies consumed		**69,159**	55,018
Cost of inventories sold		**3,528**	2,008
Amortisation of intangible assets	*16*	**3,556**	3,541
Depreciation of property, plant and equipment	*13*	**12,479**	10,313
Depreciation of right-of-use assets	*14*	**10,147**	9,339
Research and development costs		**1,602**	2,000
Lease payments not included in the measurement of lease liabilities		**1,205**	709
Auditor's remuneration		**2,209**	2,250
Employee benefit expense (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**54,449**	52,067
Equity-settled share option expense		**4,411**	3,645
Pension scheme contributions		**5,874**	4,226
Staff welfare expenses		**1,869**	1,816
Impairment of trade receivables, net	*19*	**29**	7
Impairment of financial assets included in prepayments, other receivables and other assets	*20*	**–**	6
Impairment of goodwill	*15*	**11,942**	6,365
(Gain)/loss on disposal of items of property, plant and equipment		**(155)**	33
Loss on write-off of items of intangible assets		**3,113**	–
Promotion and marketing expenses		**17,344**	19,360
Professional fee		**2,548**	1,903
Foreign exchange differences, net		**(235)**	(2,644)
Fair value gains on contingent consideration		**(7,131)**	(3,870)

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	**2,456**	2,583
Interest on bank borrowings	**342**	218
	2,798	2,801

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2023 RMB'000	2022 RMB'000
Fees	**1,135**	1,106
Other emoluments:		
Salaries, allowances and benefits in kind	**1,912**	1,712
Pension scheme contributions	**167**	177
Equity-settled share option expense	**81**	125
	2,160	2,014
	3,295	3,120

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees paid or payable to independent non-executive directors during the year were as follows:

	2023 RMB'000	2022 RMB'000
Mr. Cao Dequan	**162**	155
Mr. Liu Teng	**162**	155
Ms. Yang Xiaofen	**162**	156
	486	466

There were no other emoluments payable to the independent non-executive directors during the year (2022: Nil).

(b) Executive directors, non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension Scheme contributions RMB'000	Total remuneration RMB'000
2023					
Executive directors:					
Mr. Song Jianliang	–	900	33	–	933
Mr. Fu Haishu	541	240	–	71	852
Mr. Wang Ying*	108	426	33	24	591
Chief executive:					
Ms. Zhang Chunxiu	–	346	15	72	433
	649	1,912	81	167	2,809

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension Scheme contributions RMB'000	Total remuneration RMB'000
2022					
Executive directors:					
Mr. Song Jianliang	–	600	47	–	647
Mr. Fu Haishu	536	240	–	66	842
Mr. Wang Ying*	104	280	55	18	457
Chief executive:					
Ms. Zhang Chunxiu	–	592	23	93	708
	640	1,712	125	177	2,654

No remuneration was paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2022: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2022: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	**3,354**	1,819
Equity-settled share option expense	**3**	5
Pension scheme contributions	**71**	33
	3,428	1,857

No remuneration was paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of any office in connection with the management of the affairs of any member of the Group distinguishing between contractual payments and other payments (excluding the amounts as disclosed in the table above). The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2023	2022
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$2,000,000	**1**	–
	4	3

In prior years, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

	2023 RMB'000	2022 RMB'000
Current tax		
Charge for the year	**130**	187
Overprovision in prior years	**69**	–
Deferred *(note 27)*	**2,570**	(2,041)
Total tax charge/(credit) for the year	**2,769**	(1,854)

The majority of the Company's subsidiaries are domiciled in Chinese Mainland. A reconciliation of the tax expenses applicable to loss before tax at the statutory rate for Chinese Mainland to the tax expense/(credit) at the Group's effective tax rate is as follows:

	2023 RMB'000	2022 RMB'000
Loss before tax	**(35,010)**	(22,101)
Tax at the PRC statutory income tax rate*	**(8,753)**	(5,525)
Effect of different tax rates of subsidiaries**	**1,704**	722
Adjustments in respect of current tax of previous periods	**69**	–
Losses attributable to associates	**435**	41
Expenses not deductible for tax	**3,594**	967
Deductible temporary differences and tax losses not recognised	**5,720**	1,941
	2,769	(1,854)

* The provision for current income tax in Chinese Mainland is based on the statutory rate of 25% of the assessable profit of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

** Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI. The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the rate of 16.5% on any estimated assessable profits arising in Hong Kong. Pursuant to Caishui 2017 Circular No.43, 2019 circular No.13, 2021 circular No.12 and 2022 circular No. 13 announcement of the State Taxation Administration, Ningbo Zhuerli, Ruian Raily, Shenzhen Ruiquan, Shenzhen Jiumei, Hangzhou Ruiquan, Hainan Bellafill, as small micro-enterprises, enjoyed preferential tax rate ranging from 2.5% to 5% (2022: 2.5%) for the year ended 31 December 2023.

11. DIVIDENDS

No dividend was paid or declared by the Company for the year ended 31 December 2023.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 417,808,000 (2022: 417,808,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2023 and 2022 in respect of a dilution as the impact of the option outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of basic loss per share is based on:

	2023 **RMB'000**	2022 RMB'000 (Restated)
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	**(32,457)**	(15,911)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**417,808,000**	417,808,000
Basic and diluted*		
For loss for the year (RMB)	**(7.77) cents**	(3.81) cents

* The weighted average numbers of ordinary shares used to calculate the basic loss per share amounts for the years ended 31 December 2023 and 2022 have been adjusted to reflect the share consolidation after the reporting date. Accordingly, the basic and diluted loss per share amounts for the year ended 31 December 2022 are restated.

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2023

	Machinery equipment RMB'000	Office and other equipment RMB'000	Lease hold improvements RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2023:						
Cost	36,735	8,062	36,150	3,424	2,715	87,086
Accumulated depreciation and impairment	(24,263)	(6,244)	(13,760)	(2,056)	–	(46,323)
Net carrying amount	12,472	1,818	22,390	1,368	2,715	40,763
At 1 January 2023, net of accumulated depreciation and impairment	12,472	1,818	22,390	1,368	2,715	40,763
Additions	1,686	585	1,555	–	18,343	22,169
Disposals	(59)	(103)	–	–	–	(162)
Depreciation provided during the year	(4,780)	(650)	(6,546)	(503)	–	(12,479)
Transfer	–	–	3,625	–	(3,625)	–
At 31 December 2023, net of accumulated depreciation	9,319	1,650	21,024	865	17,433	50,291
At 31 December 2023:						
Cost	37,267	7,751	41,331	3,424	17,433	107,206
Accumulated depreciation	(27,948)	(6,101)	(20,307)	(2,559)	–	(56,915)
Net carrying amount	9,319	1,650	21,024	865	17,433	50,291

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2022

	Machinery equipment RMB'000	Office and other equipment RMB'000	Lease hold improvements RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022:						
Cost	35,785	6,991	21,559	3,020	1,489	68,844
Accumulated depreciation and impairment	(19,617)	(5,806)	(9,619)	(1,602)	–	(36,644)
Net carrying amount	16,168	1,185	11,940	1,418	1,489	32,200
At 1 January 2022, net of accumulated depreciation and impairment	16,168	1,185	11,940	1,418	1,489	32,200
Additions	1,555	1,132	12,383	404	3,435	18,909
Disposals	(30)	(3)	–	–	–	(33)
Depreciation provided during the year	(5,221)	(496)	(4,142)	(454)	–	(10,313)
Transfer	–	–	2,209	–	(2,209)	–
At 31 December 2022, net of accumulated depreciation	12,472	1,818	22,390	1,368	2,715	40,763
At 31 December 2022:						
Cost	36,735	8,062	36,150	3,424	2,715	87,086
Accumulated depreciation	(24,263)	(6,244)	(13,760)	(2,056)	–	(46,323)
Net carrying amount	12,472	1,818	22,390	1,368	2,715	40,763

14. LEASES

Group as a lessee

The Group has lease contracts for working spaces used in its operations. Leases of working spaces generally have lease terms between 3 and 10 years. There are several lease contracts that include extension and termination options, which are further discussed below.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Working spaces RMB'000
As at 1 January 2022	47,859
Additions	3,794
Depreciation charge	(9,339)
Revision of a lease term arising from a change in the non-cancellable period of a lease	929
As at 31 December 2022 and 1 January 2023	**43,243**
Additions	**11,239**
Depreciation charge	**(10,147)**
As at 31 December 2023	**44,335**

14. LEASES (CONTINUED)

Group as a lessee (Continued)

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	**43,221**	47,454
New leases	**11,239**	3,793
Accretion of interest recognised during the year	**2,456**	2,583
Payments	**(12,132)**	(10,411)
Payments waived	**–**	(1,127)
Revision of a lease term arising from a change in the non-cancellable period of a lease	**–**	929
Carrying amount at 31 December	**44,784**	43,221
Analysed into:		
Current	**10,342**	8,666
Non-current	**34,442**	34,555

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2023 RMB'000	2022 RMB'000
Interest charge on lease liabilities	**2,456**	2,583
Depreciation charge of right-of-use assets	**10,147**	9,339
Expense relating to short-term leases	**1,205**	709
Lease payments waived	**–**	(1,127)
Total amount recognised in profit or loss	**13,808**	11,504

(d) Extension and termination options

The Group has several lease contracts that include extension and termination options but the Group did not expect to exercise such options as at 31 December 2023.

(e) The total cash outflow for leases is disclosed in note 32(c) to the financial statements.

15. GOODWILL

	RMB'000
At 1 January 2022:	
Cost	63,129
Accumulated impairment	–
Net carrying amount	63,129
Cost at 1 January 2022, net of accumulated impairment	63,129
Impairment during the year	(6,365)
Cost and net carrying amount at 31 December 2022	56,764
At 31 December 2022:	
Cost	63,129
Accumulated impairment	(6,365)
Net carrying amount	56,764
Cost at 1 January 2023, net of accumulated impairment	56,764
Impairment during the year	(11,942)
Cost and net carrying amount at 31 December 2023	44,822
At 31 December 2023:	
Cost	63,129
Accumulated impairment	(18,307)
Net carrying amount	44,822

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Aesthetic medical services CGUs; and
- Aesthetic medical equipment products CGU.

15. GOODWILL (CONTINUED)

Impairment testing of goodwill (Continued)

Aesthetic medical services CGUs

The recoverable amount of the aesthetic medical services CGUs had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections for 31 December 2023 was 13.03% (2022: 14.71%). The growth rate used to extrapolate the cash flows of the aesthetic medical services CGUs beyond the five-year period is 3.00% (2022: 3.00%), which is also an estimate of the long-term rate of inflation.

Aesthetic medical equipment products CGU

The recoverable amount of the aesthetic medical equipment products CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections for 31 December 2023 was 16.00% (2022: 16.00%). The growth rate used to extrapolate the cash flows of the aesthetic medical equipment products CGU beyond the five-year period is 2.30% (2022: 2.30%), which is also an estimate of the long-term rate of inflation.

The management made the impairment test of CGUs with the assistance of external valuers.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	Aesthetic medical services		Aesthetic medical products		Total	
	2023	2022	**2023**	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Carrying amount of goodwill	**6,150**	13,845	**38,672**	42,919	**44,822**	56,764

Assumptions were used in the value in use calculation of the aesthetic medical services and aesthetic medical equipment products CGUs for 31 December 2023 and 31 December 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Long-term growth rates – The basis used to determine the value assigned to the long-term growth rates are the forecast price indices during the budget year from where the main services are located.

The values assigned to the key assumptions on market development of the aesthetic medical services and aesthetic medical products industries, discount rates and consumer price indexes are based on the long-term growth rates in the industries and the Group's historical experience.

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Exclusive distributor agreement RMB'000	Others RMB'000	Total RMB'000
31 December 2023				
Cost at 1 January 2023, net of accumulated amortisation	**3,895**	**26,500**	**72**	**30,467**
Additions	**24**	**–**	**–**	**24**
Disposal	**(3,113)**	**–**	**–**	**(3,113)**
Amortisation provided during the year	**(537)**	**(3,000)**	**(19)**	**(3,556)**
At 31 December 2023	**269**	**23,500**	**53**	**23,822**
At 31 December 2023:				
Cost	**740**	**30,000**	**143**	**30,883**
Accumulated amortisation	**(471)**	**(6,500)**	**(90)**	**(7,061)**
Net carrying amount	**269**	**23,500**	**53**	**23,822**
31 December 2022				
Cost at 1 January 2022, net of accumulated amortisation	4,416	29,500	92	34,008
Amortisation provided during the year	(521)	(3,000)	(20)	(3,541)
At 31 December 2022	3,895	26,500	72	30,467
At 31 December 2022:				
Cost	5,216	30,000	143	35,359
Accumulated amortisation	(1,321)	(3,500)	(71)	(4,892)
Net carrying amount	3,895	26,500	72	30,467

17. INVESTMENT IN AN ASSOCIATE

	2023 RMB'000	2022 RMB'000
Investment in the associate	**706**	3,262

The following table illustrates the aggregate financial information of the Group's associate that is not individually material:

	2023 RMB'000	2022 RMB'000
Share of the associates' loss for the year	**(1,789)**	(86)
Share of the associates' total comprehensive income	**(1,789)**	(86)
Impairment	**(767)**	–
Aggregate carrying amount of the Group's investment in the associate	**706**	3,262

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

According to the estimation of the management, the associate is not supposed to generate positive operating cash flow in the future and only held cash and other current assets as at 31 December 2023, therefore the recoverable amount was determined by the fair value less costs of disposal of the related CGU, which was estimated to be approximate to its carrying amount.

18. INVENTORIES AND SUPPLIES

	2023 RMB'000	2022 RMB'000
Medical consumables	**6,600**	6,350
Pharmaceuticals	**3,969**	5,024
Aesthetic medical equipment products	**1,015**	1,304
Impairment	**(146)**	–
	11,438	12,678

At 31 December 2023, the Group did not have any inventories (2022: Nil) that have been pledged.

19. TRADE RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	**9,564**	5,377
Impairment	**(65)**	(36)
	9,499	5,341

The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000
Within 3 months	**1,864**	2,032
4 to 6 months	**245**	1,148
7 to 12 months	**3,147**	2,126
1 to 2 years	**4,243**	35
	9,499	5,341

The movements in the loss allowance for impairment of trade receivables are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	**36**	326
Impairment losses, net *(note 6)*	**29**	7
Amount written off as uncollectible	**–**	(297)
At end of year	**65**	36

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for the customers, external credit ratings and historical credit loss experience. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 RMB'000	2022 RMB'000
Prepayments for inventories and supplies	**223**	874
Prepayments for services	**2,286**	668
Prepaid expense	**1,906**	2,141
Deposits	**11,377**	11,397
Other receivables	**1,519**	689
	17,311	15,769
Impairment allowance	**(7)**	(7)
	17,304	15,762

Deposits and other receivables mainly represent rental deposits, deposits with suppliers and petty cash to employees. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

An impairment analysis is performed at the end of each reporting period. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate.

As at 31 December 2023, the Group estimated the expected losses for other receivables to be RMB7,000 (2022: RMB7,000). The movements in the loss allowance for impairment of other receivables were as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	**7**	1
Impairment losses *(note 6)*	**–**	6
At end of year	**7**	7

21. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2023 RMB'000	2022 RMB'000
Cash and bank balances	**39,790**	78,779
Pledged deposits	**1,585**	1,543
	41,375	80,322
Less:		
Time deposit with maturity of more than 3 months	**(23,860)**	(34,842)
Pledged deposits for lease guarantee	**(1,585)**	(1,543)
Cash and cash equivalents	**15,930**	43,937

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB15,929,606 (2022: RMB43,937,347). The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits for lease arrangements will be due in December 2024 respectively and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000
Within 90 days	**8,634**	8,326
91 to 180 days	**596**	389
181 to 365 days	**237**	263
Over 365 days	**35**	191
	9,502	9,169

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

23. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000
Other payables*	**10,578**	7,551
Payroll payable	**7,683**	5,473
Advances received	**4,587**	4,431
Tax liabilities (other than income tax)	**1,095**	997
Other current liabilities	**–**	110
	23,943	18,562

* Other payables are non-interest-bearing and repayable on demand.

24. INTEREST-BEARING BANK BORROWINGS

	2023			2022		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**4**	**2024**	**7,000**	4	2023	3,000
Bank loans – unsecured	**–**	**–**	**–**	5	2023	2,000
			7,000			5,000

The Group's interest-bearing bank borrowings were repayable within one year at the end of the reporting period.

25. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2023 RMB'000	31 December 2022 RMB'000	1 January 2022 RMB'000
Short-term advances received from customers			
Aesthetic medical services	**20,977**	16,608	14,615
Consulting services	**–**	–	71
Total contract liabilities	**20,977**	16,608	14,686

Contractual liabilities include advances received for the provision of medical and aesthetic services.

26. REFUND LIABILITIES

	Refund liabilities RMB'000
At 1 January 2022	5,580
Additions	4,530
Amounts utilised during the year	(6,034)
At 31 December 2022 and 1 January 2023	4,076
Additions	3,358
Amounts utilised during the year	(4,230)
At 31 December 2023	3,204

27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Note	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right-of-use assets RMB'000	Depreciation RMB'000	Total RMB'000
At 1 January 2023		6,625	10,802	1,206	18,633
Deferred tax credited to profit or loss during the year	*10*	(750)	(2,982)	(678)	(4,410)
Gross deferred tax liabilities at 31 December 2023		5,875	7,820	528	14,223

Deferred tax assets

	Note	Advertising expenses for offsetting against future profit RMB'000	Provision and accruals RMB'000	Loss available for offsetting against future profit RMB'000	Lease liabilities RMB'000	Amortisation RMB'000	Refund liabilities RMB'000	Total RMB'000
At 1 January 2023		1,633	625	9,284	12,163	–	1,019	24,724
Deferred tax credited/(charged) to profit or loss during the year	*10*	(1,542)	28	(2,754)	(2,972)	778	(518)	(6,980)
Gross deferred tax assets at 31 December 2023		91	653	6,530	9,191	778	501	17,744

27. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Note	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right-of-use assets RMB'000	Depreciation RMB'000	Total RMB'000
At 1 January 2022		7,375	11,957	1,694	21,026
Deferred tax credited to profit or loss during the year	*10*	(750)	(1,155)	(488)	(2,393)
Gross deferred tax liabilities at 31 December 2022		6,625	10,802	1,206	18,633

Deferred tax assets

	Note	Advertising expenses for offsetting against future profit RMB'000	Accrued payroll and other expenses RMB'000	Loss available for offsetting against future profit RMB'000	Accrued expenses RMB'000	Lease liabilities RMB'000	Bad debt RMB'000	Refund liabilities RMB'000	Total RMB'000
At 1 January 2022		1,765	430	8,694	–	12,755	37	1,395	25,076
Deferred tax credited/(charged) to profit or loss during the year	*10*	(132)	(123)	590	282	(592)	(1)	(376)	(352)
Gross deferred tax assets at 31 December 2022		1,633	307	9,284	282	12,163	36	1,019	24,724

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Chinese Mainland. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Chinese Mainland and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008.

27. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2023 RMB'000	2022 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**9,396**	12,716
Net deferred tax liabilities recognised in the consolidated statement of financial position	**5,875**	6,625

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the following items can be utilised:

	2023 RMB'000	2022 RMB'000
Tax losses	**28,211**	7,109

As at 31 December 2023, no deferred tax has been recognised for withholding taxes that would be payable on the earnings that are subject to withholding taxes of the Group's subsidiaries established in Chinese Mainland. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. CONTINGENT CONSIDERATION

On 29 October 2021, the Group acquired a 90% equity interest in Shenzhen Jiumei from third parties. A contingent consideration liability had been recognised initially at RMB29,437,000, which was measured at fair value. The management remeasured its fair value at each reporting date using valuation techniques based on the estimate of future performance of Shenzhen Jiumei and other future market conditions. The fair value was classified as Level 3 fair value hierarchy.

The carrying amount of contingent consideration is as follows:

	2023 RMB'000	2022 RMB'000
Carrying amount at 31 December	**18,436**	25,567
Analysed into:		
Current	**10,295**	6,386
Non-current	**8,141**	19,181

Significant unobservable valuation inputs for the fair value measurement of the contingent consideration are as follows:

Volatility	20%-30%
Discount rate after tax	16%

29. SHARE CAPITAL

Shares

	2023 RMB'000	2022 RMB'000
Issued and full paid: 2,089,040,000 (2022: 2,089,040,000) ordinary shares	**136,267**	136,267

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2022	2,089,040,000	136,267
At 31 December 2022	2,089,040,000	136,267
At 31 December 2023	2,089,040,000	136,267

There was no change in shares during the year ended 31 December 2023.

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme became effective on 23 August 2021 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of six months and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

30. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Scheme during the year:

	2023		2022	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.319**	**205,400**	0.492	97,161
Granted during the year	**–**	**–**	0.167	109,439
Forfeited during the year	**0.492**	**(48,130)**	0.492	(1,200)
At 31 December	**0.265**	**156,870**	0.319	205,400

No share options were exercised during the year ended 31 December 2023 (2022: Nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

As at 31 December 2023

Number of options '000	**Exercise price HK$ per share**	**Exercise period**
–	**0.492**	**23-08-2022 to 22-08-2023**
47,431	**0.492**	**23-08-2023 to 22-08-2024**
21,888	**0.1678**	**29-08-2023 to 28-08-2032**
21,888	**0.1678**	**29-08-2024 to 28-08-2032**
32,832	**0.1678**	**29-08-2025 to 28-08-2032**
32,831	**0.1678**	**29-08-2026 to 28-08-2032**
156,870		

30. SHARE OPTION SCHEME (CONTINUED)

As at 31 December 2022

Number of options '000	Exercise price HK$ per share	Exercise period
47,980	0.492	23-08-2022 to 22-08-2023
47,981	0.492	23-08-2023 to 22-08-2024
21,888	0.1678	29-08-2023 to 28-08-2032
21,888	0.1678	29-08-2024 to 28-08-2032
32,832	0.1678	29-08-2025 to 28-08-2032
32,831	0.1678	29-08-2026 to 28-08-2032
205,400		

The Group recognised a share option expense of RMB4,492,000 during the year ended 31 December 2023 (2022: RMB3,770,000), with no share options granted during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2023	2022
Dividend yield (%)	–	–
Expected volatility (%)	–	39
Historical volatility (%)	–	39
Risk-free interest rate (%)	–	3
Weighted average share price (HK$ per share)	–	0.319

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 205,500,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 205,500,000 additional ordinary shares of the Company and additional share capital of RMB14,555,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 41,100,000 share options outstanding under the Scheme, which represented approximately 9.84% of the Company's shares in issue as at that date.

30. SHARE OPTION SCHEME (CONTINUED)

Subsequent to the end of the reporting period, on 26 January 2024, a total of 48,630,462 share options were granted to certain of the employees of the Company in respect of their services to the Group in the forthcoming year. These share options vest on 26 January 2025 and have an exercise price of HK$0.115 per share and an exercise period ranging from 26 January 2025 to 25 January 2034. The price of the Company's shares at the date of grant was HK$0.115 per share.

Subsequent to the end of the reporting period, on 23 February 2024, a total of 47,430,466 share options were granted to certain of the directors of the Company in respect of their services to the Group in the forthcoming year. 1,000,000 share options vest on 23 February 2026 and others vest on 23 February 2025, which have an exercise price of HK$0.122 per share and exercise periods ranging from 23 February 2026 to 22 February 2034, and 23 February 2025 to 22 February 2034. The price of the Company's shares at the date of grant was HK$0.122 per share.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on pages 105 of the financial statements.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company and the reserve arising from the reorganisation during the initial public offering process and the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interest in a subsidiary. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, a subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Distributable reserves

At 31 December 2023, the Company do not have reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions and revisions to right-of-use assets and lease liabilities of RMB11,239,000 (2022: RMB2,343,000) and RMB11,239,000 (2022: RMB2,343,000), respectively, in respect of lease arrangements for working spaces.

(b) Changes in liabilities arising from financing activities

2023

	Notes	**Bank borrowings RMB'000**	**Lease liabilities RMB'000**	**Total RMB'000**
At 1 January 2023		**5,888**	**43,221**	**49,109**
Changes from financing cash flows		**2,342**	**(12,132)**	**(10,132)**
New leases and revisions	*14(b)*	**–**	**11,239**	**11,239**
Interest expense	*7*	**–**	**2,456**	**2,798**
At 31 December 2023		**8,230**	**44,784**	**53,014**

2022

	Notes	Bank borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2022		20,670	47,454	68,124
Changes from financing cash flows		(15,000)	(10,411)	(25,411)
New leases and revisions	*14(b)*	–	4,722	4,722
Interest expense	*7*	(218)	2,583	2,801
Payments waived		–	(1,127)	(1,127)
At 31 December 2022		5,888	43,221	49,109

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2023 RMB'000	2022 RMB'000
Within operating activities	**1,205**	709
Within financing activities	**12,132**	10,411
	13,337	11,120

33. PLEDGE OF ASSETS

Details of the Group's assets pledged for its lease arrangements are disclosed in note 21 to the financial statements.

For the expansion of the lease arrangements for working spaces, the Group made a three-year deposit amounting to RMB1,585,000, which is disclosed in the note 21 to the financial statements.

34. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2023 RMB'000	2022 RMB'000
Contracted, but not provided for:		
Leasehold improvements	–	1,122

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere, the Group had the following transactions with related parties during the year:

	2023 RMB'000	2022 RMB'000
The associate:		
Purchases of products	**100**	1,250

The purchases from the associate were made according to the agreement by both parties with reference to market price of similar products.

(b) Outstanding payables to directors:

	2023 RMB'000	2022 RMB'000
Mr. Cao Dequan	–	155
Mr. Liu Teng	–	155
Ms. Yang Xiaofen	–	156
	–	466

No outstanding balance due to independent directors at the end of the reporting period represented the fees payable to them.

(c) Compensation of key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Short term employee benefits	**1,910**	1,712
Pension scheme contributions	**167**	177
Equity-settled share option expense	**81**	125
Total compensation paid to key management personnel	**2,158**	2,014

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of item (a) above do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2023

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	9,499
Financial assets included in prepayments, other receivables and other assets	12,896
Pledged deposits	1,585
Cash and bank balances	39,790
	63,770

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	9,502	9,502
Interest-bearing bank borrowings	–	7,000	7,000
Contingent consideration	18,436	–	18,436
Financial liabilities included in other payables and accruals	–	14,906	14,906
	18,436	31,408	49,844

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2022

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	5,341
Financial assets included in prepayments, other receivables and other assets	12,087
Pledged deposits	1,543
Cash and bank balances	78,779
	97,750

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	9,169	9,169
Interest-bearing bank borrowings	–	5,000	5,000
Contingent consideration	25,567	–	25,567
Financial liabilities included in other payables and accruals	–	12,090	12,090
	25,567	26,259	51,826

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, interest-bearing bank borrowings, financial liabilities included in other payables and accruals, an amount due to directors and the current portion of lease liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of pledged deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Contingent consideration	**–**	**–**	**18,436**	**18,436**

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Contingent consideration	–	–	25,567	25,567

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2022: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances and contingent consideration. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's interest-bearing bank borrowings bore interest at fixed rates as at 31 December 2023, therefore the Group did not have exposure to the risk of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from financing activities in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rates, with all other variables held constant, of the Group's loss before tax.

	Change in foreign currency rate	Increase/(decrease) in loss before tax	Increase/(decrease) in equity*
	%	RMB'000	RMB'000
2023			
If RMB weakens against HK$	**5**	**857**	**717**
If RMB strengthens against HK$	**(5)**	**(857)**	**(717)**
2022			
If RMB weakens against HK$	5	1,010	852
If RMB strengthens against HK$	(5)	(1,010)	(852)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	9,499	9,499
Financial assets included in prepayments, other receivables and other assets normal**	12,891	–	–	–	12,891
Pledged deposits	1,585	–	–	–	1,585
Cash and cash balances	39,790	–	–	–	39,790
	54,266	–	–	9,499	63,765

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	5,341	5,341
Financial assets included in prepayments, other receivables and other assets normal**	12,087	–	–	–	12,087
Pledged deposits	1,543	–	–	–	1,543
Cash and cash balances	78,779	–	–	–	78,779
	92,409	–	–	5,341	97,750

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the expected credit loss rate is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (Continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. As at 31 December 2023, the Group had certain concentrations of credit risk as 78% of the Group's trade receivables were due from the Group's largest customer (2022: 29%).

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2023				
	On demand RMB'000	**Within 1 year RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Lease liabilities	**–**	**13,041**	**33,445**	**5,250**	**51,736**
Trade payables	**9,502**	**–**	**–**	**–**	**9,502**
Interest-bearing bank borrowings	**–**	**7,000**	**–**	**–**	**7,000**
Financial liabilities included in other payables and accruals	**15,164**	**–**	**–**	**–**	**15,164**
	24,666	**20,041**	**33,445**	**5,250**	**83,402**

	2022				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	–	10,956	31,030	9,680	51,666
Trade payables	9,169	–	–	–	9,169
Interest-bearing bank borrowings	–	5,065	–	–	5,065
Financial liabilities included in other payables and accruals	12,090	–	–	–	12,090
	21,259	16,021	31,030	9,680	77,990

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

39. EVENTS AFTER THE REPORTING PERIOD

(a) On 2 January 2024, the Group entered into a supplemental agreement to the legally binding letter with Hangzhou Tianxin Aesthetic Medical Hospital Co., Ltd. (the "Target Company") and the existing shareholders of the Target Company.

(b) On 26 February 2024, the board of directors of the Group proposed to implement a share consolidation on the basis that every five existing shares in the share capital of the Company be consolidated into one consolidated share. The company proposed to issue rights shares at the subscription price of HK$0.148 per rights share on the basis of one rights share for every three consolidated shares held by the qualifying shareholders at the close of business on 15 March 2024. The share consolidation was approved on 15 March 2024 and became effective on 19 March 2024.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	**9,622**	5,130
CURRENT ASSETS		
Prepayments, other receivables and other assets	**462**	419
Due from related companies	**148,564**	150,200
Cash and cash equivalents	**589**	2,229
Total current assets	**149,615**	152,848
CURRENT LIABILITIES		
Due to related companies	**2,425**	2,442
Due to independent directors	**–**	466
Other payables and accruals	**342**	572
Total current liabilities	**2,767**	3,480
NET CURRENT ASSETS	**146,848**	149,368
TOTAL ASSETS LESS CURRENT LIABILITIES	**156,470**	154,498
NET ASSETS	**156,470**	154,498
EQUITY		
Equity attributable to owners of the parent		
Share capital	**136,267**	136,267
Reserves	**20,203**	18,231
Total equity	**156,470**	154,498

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

A summary of the Company's reserves is as follows:

	Note	Capital reserve RMB'000	Share Option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2022		41,078	1,038	(31,565)	10,551
Total comprehensive profit for the year		–	–	3,910	3,910
Equity-settled share option arrangements	*30*	–	3,770	–	3,770
At 31 December 2022		41,078	4,808	(27,655)	18,231
At 1 January 2023		**41,078**	**4,808**	**(27,655)**	**18,231**
Total comprehensive profit for the year		**–**	**–**	**(2,520)**	**(2,520)**
Equity-settled share option arrangements	*30*	**–**	**4,492**	**–**	**4,492**
At 31 December 2023		**41,078**	**9,300**	**(30,176)**	**20,203**

The share option reserve comprises the fair value of share options granted which were yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount would either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2024.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**189,384**	164,522	188,367	164,545	191,156
(Loss)/Profit before tax	**(35,010)**	(22,101)	(22,948)	11,567	16,388
Income tax credit/(expense)	**(2,769)**	1,854	4,682	(6,656)	(6,111)
(LOSS)/PROFIT FOR THE YEAR	**(37,779)**	(20,247)	(18,266)	4,911	10,277

	As at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	**273,599**	302,651	344,725	272,332	183,133
Total liabilities	**141,009**	136,774	162,371	85,582	89,858
Equity attributable to owners of the Company	**132,590**	165,877	178,221	185,873	93,058