



# 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

## Global Offering

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



# IMPORTANT

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



## Raily Aesthetic Medicine International Holdings Limited

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(Incorporated in the Cayman Islands with limited liability)

### GLOBAL OFFERING

Number of Offer Shares	: 342,500,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 34,250,000 Shares (subject to re-allocation)
Number of International Placing Shares	: 308,250,000 Shares (subject to re-allocation and the Over-allotment Option)
Maximum Offer Price	: HK\$0.40 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full upon application in Hong Kong dollars and subject to refund)
Nominal value	: US\$0.01 per Share
Stock code	: 2135

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (acting for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or about Friday, 18 December 2020 and, in any event not later than Sunday, 20 December 2020. The Offer Price will be not more than HK\$0.40 per Offer Share and is currently expected to be not less than HK\$0.30 per Offer Share, unless otherwise announced. **The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.** In such case, notices of the reduction in the number of Offer Shares and/or the Offer Price range will be published on the website of our Company at [www.ruilizx.com](http://www.ruilizx.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

**The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.**

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of any U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act.

15 December 2020

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## EXPECTED TIMETABLE

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Event	Date <sup>(1)</sup> 2020
Latest time for completing electronic applications under <b>HK eIPO White Form</b> service through one of the below ways <sup>(2)</sup> :	
(1) the <b>IPO App</b> , which can be downloaded by searching “ <b>IPO App</b> ” in App Store or Google Play or downloaded at <a href="http://www.hkeipo.hk/IPOApp">www.hkeipo.hk/IPOApp</a> or <a href="http://www.tricorglobal.com/IPOApp">www.tricorglobal.com/IPOApp</a>	
(2) the designated website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> . . . . .	11:30 a.m. on Friday, 18 December
Application lists open <sup>(3)</sup> . . . . .	11:45 a.m. on Friday, 18 December
Latest time for lodging <b>White</b> and <b>Yellow</b> Application Forms . . . . .	12:00 noon on Friday, 18 December
Latest time for giving <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> . . . . .	12:00 noon on Friday, 18 December
Latest time for completing payment of <b>HK eIPO White Form</b> applications by effecting Internet banking transfer(s) or PPS payment transfer(s) . . . . .	12:00 noon on Friday, 18 December
Application lists close <sup>(3)</sup> . . . . .	12:00 noon on Friday, 18 December
Expected Price Determination Date <sup>(5)</sup> . . . . .	Friday, 18 December
Announcement of the final Offer Price, the level of indication of interest in the International Placing, level of applications in the Hong Kong Public Offering and the basis of allotment of the Hong Kong Offer Shares, to be published on the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and on the website of our Company at <a href="http://www.ruilizx.com">www.ruilizx.com</a> on or before . . . . .	Thursday, 24 December
Results of allotment in the Hong Kong Public Offering (with successful applicants’ identification document numbers or Hong Kong business registration numbers where applicable) to be available through a variety of channels, including the website of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and the Company’s website at <a href="http://www.ruilizx.com">www.ruilizx.com</a> (please refer to the section headed “How to Apply for Hong Kong Offer Shares — 11. Publication of Result” in this prospectus) from . . . . .	Thursday, 24 December

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## EXPECTED TIMETABLE

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Event	Date <sup>(1)</sup> 2020
Results of allocation in the Public Offer to be available at “Allotment Result” in the <b>IPO App</b> or at <a href="http://www.tricor.com.hk/ipo/result">www.tricor.com.hk/ipo/result</a> and <a href="http://www.hkeipo.hk/iporesult">www.hkeipo.hk/iporesult</a> with a “search by ID Number/Business Registration Number” function from. . . . .	Thursday, 24 December
Despatch/collection of share certificates or deposit of share certificate into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before <sup>(6)(8)</sup> . . . . .	Thursday, 24 December
Despatch of <b>HK eIPO White Form</b> e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications (where applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before <sup>(7) to (12)</sup> . . . . .	Thursday, 24 December
Dealings in Shares on the Stock Exchange to commence at. . . . .	9:00 a.m. on Monday, 28 December

*Notes:*

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the **IPO App** or the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO App** or the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 December 2020, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open and close on Friday, 18 December 2020, the dates mentioned in “Expected Timetable” may be affected. An announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.



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## EXPECTED TIMETABLE

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- (5) The Price Determination Date is expected to be on or about Friday, 18 December 2020, and in any event no later than Sunday, 20 December 2020 (Hong Kong time). If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (acting for themselves and on behalf of the Underwriters) and our Company by Sunday, 20 December 2020 (Hong Kong time), the Global Offering will not proceed and will lapse.
- (6) Share certificates for the Hong Kong Offer Shares will become valid certificates of title at 8:00 a.m. on Monday, 28 December 2020 (Hong Kong time), provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed and will lapse. In such a case, our Company will make an announcement as soon as possible thereafter.
- (7) e-Auto Refund payment instruction/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (8) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required by their Application Form may collect their refund cheque(s) (where applicable) and/or Share certificate(s) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 24 December 2020. Applicants being individuals who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited, must be produced at the time of collection.
- (9) Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering may collect their refund cheque(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) For applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC, their refund (if any) will be credited to their designated bank account or the designated bank account of the designated CCASS Participant through which they made their application on or before Thursday, 24 December 2020. For applicants who have instructed their designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on their behalf, they can check the amount of refund (if any) payable to them with that designated CCASS Participant. For applicants who have applied as CCASS Investor Participant, they can check the amount of refund (if any) payable to them via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 24 December 2020 or in the activity statement showing the amount of refund money credited to

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## EXPECTED TIMETABLE

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their designated bank account made available to them by HKSCC immediately after the credit of refund money to their bank account. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus for details.

- (11) For applicants who have applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to their application payment bank account in the form of e-Auto Refund payment instructions on Thursday, 24 December 2020. For applicants who have applied through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) will be despatched on or before Thursday, 24 December 2020 by ordinary post at their own risk. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus for details.
- (12) Uncollected share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant applications. Further details are set out in “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus.

For details of the structure of the Global Offering, including conditions thereof, please refer to the sections headed “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus.

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*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdiction are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information which is different from that contained in this prospectus. Any information or representation not made in this prospectus must not be relied upon by you as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other person or party involved in the Global Offering.*

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## SUMMARY

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

### OVERVIEW

We are a leading aesthetic medical service provider in Zhejiang Province, the PRC. We offer a broad range of aesthetic medical services to our clients to meet their different aesthetic and anti-aging objectives. 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; and (iii) aesthetic dermatology services, primarily comprising various aesthetic energy-based procedures.

We have grown our network since our operation commenced in August 2008. As at the Latest Practicable Date, we owned and operated a network of four private for-profit aesthetic medical institutions in the PRC, while three of them were located in Zhejiang Province and one of them was located in Anhui Province. All of our aesthetic medical institutions are operated under our trade names, “瑞麗” and “瑞麗整形”, together with our registered trademark “Raily”. According to the Frost & Sullivan Report, our Group had a market share of approximately 4.1% and 1.9%, and ranked fourth and fifth, in terms of aesthetic medical service revenue in 2019 among all private aesthetic medical service providers in Hangzhou City and Zhejiang Province, respectively.

The following table sets forth our revenues by types of services offered for the period indicated:

	Year ended 31 December						Six months ended 30 June			
	2017	% of	2018	% of	2019	% of	2019	% of	2020	% of
	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue	RMB'000 (unaudited)	revenue	RMB'000	revenue
<b>Aesthetic medical services</b>	<b>112,932</b>	<b>100.0</b>	<b>146,256</b>	<b>92.0</b>	<b>183,609</b>	<b>96.1</b>	<b>88,699</b>	<b>96.3</b>	<b>57,476</b>	<b>97.9</b>
— Aesthetic surgery services	56,685	50.2	57,530	36.2	54,996	28.8	28,547	31.0	14,384	24.5
— Minimally-invasive aesthetic services	28,854	25.5	40,310	25.4	55,942	29.3	26,176	28.4	20,196	34.4
— Aesthetic dermatology services	24,011	21.3	41,768	26.3	58,092	30.4	25,798	28.0	18,417	31.4
— Others <sup>(Note)</sup>	3,382	3.0	6,648	4.1	14,579	7.6	8,178	8.9	4,479	7.6
<b>Aesthetic medical management consulting services</b>	<b>—</b>	<b>—</b>	<b>12,679</b>	<b>8.0</b>	<b>7,547</b>	<b>3.9</b>	<b>3,382</b>	<b>3.7</b>	<b>1,254</b>	<b>2.1</b>
<b>Total</b>	<b>112,932</b>	<b>100.0</b>	<b>158,935</b>	<b>100.0</b>	<b>191,156</b>	<b>100.0</b>	<b>92,081</b>	<b>100.0</b>	<b>58,730</b>	<b>100.0</b>

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

### Aesthetic medical services

For the two years ended 31 December 2018, aesthetic surgery services segment was our largest single source of revenue. Benefited from (i) the growing social acceptance of aesthetic medical services; (ii) our effective online marketing campaign promoting our aesthetic medical services to young females; and (iii) the continuous innovation and technological developments of the aesthetic medical industry in recent years, which significantly lowered the medical risk of non-surgical aesthetic procedures and shortened the recovery time, compared with aesthetic surgery services, our revenue from minimally-invasive aesthetic services and aesthetic dermatology services increased significantly during the Track Record Period.

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## SUMMARY

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Through our experienced physicians and medical staff, we provide professional and holistic aesthetic medical solutions bespoke to our clients' particular aesthetic and anti-aging needs. As at 30 June 2020, we had 64 physicians who practiced at our aesthetic medical institutions with an average industry experience of approximately 12 years. We believe our team of qualified and experienced physicians and medical staff, as well as our stringent safety controls, have underpinned our strong reputation as we continue to attract and retain clients and receive industry recognition for our high quality services. Our safe and high-quality aesthetic medical services were evidenced by our accreditation by the CAPA. In 2018, Hangzhou Raily, our flagship aesthetic medical institution in terms of scale of operation and revenue contribution, was awarded as a "5A" institution by the CAPA. Given the extensive scope of review by the CAPA, "5A" institution signifies the front-end status of a private aesthetic medical institution in the PRC in terms of standard of management, security, clinical technology and service quality. Hangzhou Raily was one of the five aesthetic medical institutions in Hangzhou City that were awarded "5A" recognition by the CAPA as at the Latest Practicable Date. In addition, unlike the traditional business model that merely focuses on operation within aesthetic medical institutions, we also operate online shops on a number of e-commerce online platforms to promote our brand and to sale and market our services. Our effective online marketing was evidenced by awards and recognitions we received, such as Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City issued by Meituan, AliHealth Most Popular Medical Institution Award (阿里健康最受歡迎醫療機構獎) issued by AliHealth and Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) issued by SoYoung.com. One of our physicians was also awarded with the Annual High-Profile Aesthetic Medical Physician (年度最具權威修復名醫大咖) by SoYoung.com in 2018.

### **Aesthetic medical management consulting services**

To a lesser extent, we also provide aesthetic medical management consulting services to aesthetic medical institutions and physicians since December 2017. Leveraging our years of experience in managing aesthetic medical institutions and our expertise in sales and marketing of aesthetic medical services, we provide management consulting services to third party aesthetic medical institutions in relation primarily to their operations and administration, and sales and marketing, and to third party physicians in relation primarily to their professional biography building, sales and marketing as well as operation and administration of their aesthetic medical business.

As at the Latest Practicable Date, we were providing management consulting services to nine aesthetic medical institutions, none of which was located in any of the cities where our aesthetic medical institutions locate; and save for the one in Taizhou City in Zhejiang Province, none of which was located in Zhejiang Province or Anhui Province. According to the Frost & Sullivan Report, geographical affinity is one of the important competitive factors in the aesthetic medical service market. We therefore are of the view that given the difference in location of our clients of aesthetic medical management consulting services and our aesthetic medical institutions, our clients would not directly compete with us. Leveraging on (i) our experienced service team; (ii) our familiarity with the aesthetic medical service market and capability of provision of high quality management consulting services; and (iii) brand reputation and clientele network, our Group is able to attract clients of scalable and established group for our management consulting services. As at the Latest Practicable Date, two of our management consulting service clients were subsidiaries of a leading aesthetic medical service provider group in the PRC listed on the NASDAQ Stock Market (the "**Listed Aesthetic Medical Group**"). We have been providing aesthetic medical management consulting services including, in particular, services which improved their sales and marketing, such as formulating their overall sales and marketing plan, designing promotion and marketing activities and selecting appropriate e-commerce or other online platform to promote and market their aesthetic medical services, to such Listed Aesthetic Medical Group since 2018. Based on the prospectus and other public financial



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## SUMMARY

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reports of the Listed Aesthetic Medical Group, its client acquisition cost per client has reduced by approximately 35.8% from the year ended 31 December 2017 to the year ended 31 December 2019.

Our Group's business operation and financial performance in 2020 have been severely and adversely affected and for the six months ended 30 June 2020, we recorded a net loss of approximately RMB11.8 million. Such loss was mainly due to the decrease in revenue resulted from the temporary business suspension and the general negative consumers' sentiment after the outbreak of the COVID-19 pandemic.

### **Medical Liability Insurance**

Our PRC Legal Advisers confirm that our Group, as an aesthetic medical service provider, and our physicians (both employee physicians and contract physicians) and other medical staff are not mandatorily required by PRC laws or regulations to maintain any medical liability insurance or professional malpractice insurance in the provision of aesthetic medical services. During the Track Record Period and up to the Latest Practicable Date, we do not maintain any medical liability insurance or professional malpractice insurance for our physicians (both employee physicians and contract physicians) in the provision of aesthetic medical services. According to the Frost & Sullivan Report, it is not uncommon for market players in the aesthetic medical service industry to be without maintaining medical liability insurance themselves or maintaining professional malpractice insurance for its physicians and medical staff as there are no suitable insurance product readily available in the market for corporate aesthetic medical service providers and their physicians. However, as part of our risk management, our Group has been actively looking for suitable medical liability insurance policy in the market and will purchase one once we have found suitable policy available in the market. In addition, to the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, the employee physicians and contract physicians of our Group did not take out medical professional malpractice liability insurance themselves. According to the Frost & Sullivan Report, given the number of client complaints generally accounted for a very low percentage of the total number of aesthetic medical procedures performed, being around 1%, and therefore the relevant percentage of clients' claims for medical professional malpractice and thus the risk of being subject to successful client's claim for the same, are not high in the PRC aesthetic medical industry, the practice of not maintaining personal medical professional malpractice liability insurance by physicians are not uncommon in the industry. Therefore, we may suffer severe losses which may materially and adversely affect our operations and financial results if there is a claim against our Group or our physicians or staff for any liabilities. For more details, please refer to the section headed "Risk Factors — Risks Relating to our Business — We do not maintain medical liability insurance and may be subject to liability claims in respect of medical malpractices that may occur in our aesthetic medical institutions conducted by our physicians and medical staff, which could lead to material financial and reputational losses to our Group" in this prospectus.

### **OUR COMPETITIVE STRENGTHS AND OUR BUSINESS STRATEGIES**

We attribute our success to the following competitive strengths:

- Leading aesthetic medical institution group in Zhejiang Province with strong brand recognition and well-positioned to capture the growing aesthetic medical service market in the PRC;
- Ability to maintain high client satisfaction and well-established brand awareness with our safe and high-quality services;

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## SUMMARY

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- Scalable business supported by centralized management structure and standardized operating procedures;
- Online retail platforms with strong marketing team to efficiently sale and market our services; and
- Experienced senior management team with a proven track record of success and strong execution capabilities.

For more details, please refer to section headed “Business — Our Competitive Strengths” in this prospectus.

We plan to implement the following strategies to grow our business:

- Expanding our aesthetic medical institutions network;
- Vertical integration through strategic acquisition and investment;
- Acquire new aesthetic medical service equipment and treatment consumables to extend the spectrum of our treatment services offered in our current aesthetic medical institutions; and
- Actively promote our brand.

For more details, please refer to section headed “Business — Our Strategies” in this prospectus.

### COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, the aesthetic medical service industry in China is highly competitive and fragmented with a large number of market participants which comprise public and private aesthetic medical institutions, including general hospitals with aesthetic medical departments, aesthetic medical specialty hospitals, outpatient departments and clinics. According to the Frost & Sullivan Report, in December 2019, there were approximately 850 and 450 aesthetic medical service providers in Zhejiang Province and Anhui Province, respectively. We had a market share of approximately 1.9% and ranked fifth in the aesthetic medical service market of Zhejiang Province in 2019 in terms of revenue of aesthetic medical services; while the top market participant accounted for approximately 5.7% of market share and the second to fifth largest market participants in aggregate accounted for approximately 11.8% of market share in terms of revenue of aesthetic medical services in the same year. According to the Frost & Sullivan Report, the key competitive factors in the aesthetic medical service market in the PRC include quality of service and appropriate promotion which can increase the exposure of aesthetic medical institution to the target consumer group. We intend to compete by leveraging our leading position, reputation and extensive market knowledge. Please refer to the section headed “Industry Overview” for a more detailed discussion regarding the markets in which we operate.

### OUR CLIENTS

During the Track Record Period, all of our aesthetic medical service clients were individual retail clients, and clients for our management consulting services were aesthetic medical institutions and individual physicians. The revenue from our five largest clients collectively contributed approximately 1.1%, 2.7%, 2.7% and 2.4% to our total revenue for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. To the best knowledge of our Directors, all of our five largest clients during the Track Record Period are Independent Third Parties. None of our Directors, their respective associates or any shareholder owns more than 5% of our issued share capital had any interest in any of our five largest clients, which are corporate entities, during the Track Record Period. None of our five largest clients was also our supplier during the Track Record Period. For more details of our clients, please refer to section headed “Business — Our Clients” in this prospectus.

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## SUMMARY

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Our high quality services and stringent safety controls have translated into our low number of client complaints and high number of repeat clients. Our active clients, defined as clients who have purchased at least one aesthetic medical procedure in the relevant year/period, have increased from 29,231 in 2017 to 47,785 in 2018, and further increased to 69,835 in 2019. The number of our repeat clients, who were also our active clients in the relevant year/period and had previously purchased at least one aesthetic medical procedure, has increased from 15,172 in 2017 to 22,555 in 2018, and further increased to 35,729 in 2019. However, as we temporarily suspended the operation of our aesthetic medical institutions due to the outbreak of COVID-19 pandemic, our active clients decreased from 36,230 for the six months ended 30 June 2019 to 31,080 for the six months ended 30 June 2020; while the number of repeat clients also decreased from 18,574 for the six months ended 30 June 2019 to 17,152 for the six months ended 30 June 2020. During the Track Record Period, our medical affairs department received and handled 138 client complaints in relation to our aesthetic medical services, representing lower than 0.1% of the total number of aesthetic medical procedures performed during the same period, all of which have been settled.

Clients are required to pay our service fees in full before receiving our aesthetic medical services. Depending on the needs of our clients, the nature of aesthetic medical services offered, the relevant promotional offer during campaigns and events and our physicians' recommendation after consultation with our clients, clients may purchase one-off service session, multiple service sessions of a single procedure or multiple types of procedures to achieve the desired aesthetic results. Save for the fixed-term service plans for certain aesthetic medical services, there were no expiry dates for all other prepaid aesthetic medical services offered, whether one-off service session or multiple service sessions. Payment received for our aesthetic medical services will be recognised as revenue in our consolidated statements of profit or loss and other comprehensive income only when the procedure is performed, except for our payment received from our fixed-term service plans, which would be recognised as revenue over the validity period on such plan on a straight-line basis. Our fixed-term service plans primarily cover types of procedure which are relatively low in value and require multiple sessions to achieve or maintain the desired aesthetic effects. During the Track Record Period, we offered fixed-term service plan for laser hair removal, teeth cleansing and polishing, and facial treatment. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our fixed-term service plans contributed revenue of approximately RMB1.1 million, RMB1.7 million, RMB2.5 million and RMB1.1 million, respectively, representing approximately 1.0%, 1.2%, 1.4% and 1.9% of our total revenue derived from aesthetic medical services for the same periods. For more details of our service plans, please refer to section headed "Business — Our Clients — Payment for our aesthetic medical services" in this prospectus.

### OUR SUPPLIERS

The supplies required in our operations primarily include implants, injection materials, pharmaceuticals and other medical consumables. For the three years ended 31 December 2019 and the six months ended 30 June 2020, purchases from our five largest suppliers collectively accounted for approximately 58.8%, 54.8%, 51.8% and 57.8% of our total purchases during the same periods, respectively, and purchases from our largest supplier accounted for approximately 25.2%, 16.4%, 15.6% and 18.4% of our total purchases during the same periods, respectively. To the best knowledge of our Directors, all of our five largest suppliers during the Track Record Period are Independent Third Parties and located in either Zhejiang Province, Anhui Province, Shanghai City or Beijing City. None of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period. None of our five largest suppliers was also our client during the Track Record Period. For more details of our suppliers, please refer to section headed "Business — Suppliers and Procurement — Our suppliers" in this prospectus.

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## SUMMARY

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### RISK FACTORS

Our Directors believe that there are certain risks involved in our operations. Many of these risks are beyond our control. A detailed discussion of the risk factors that we believe are particularly relevant to us is set out in the section headed “Risk Factors” in this prospectus. Set out below are some of the major risks that may materially and adversely affect us:

- We do not maintain medical liability insurance and may be subject to liability claims in respect of medical malpractices that may occur in our aesthetic medical institutions conducted by our physicians and medical staff, which could lead to material financial and reputational losses to our Group.
- Our brand, market reputation and consumer perception contribute significantly to our continued success and growth. Any failure to maintain, or any damage to, our brand, market reputation and/or consumer perception could materially and adversely affect our results of operations and prospects.
- We rely on the performance of our physicians and staff. Our physicians and staff may be subject to complaints, investigations, claims or legal proceedings relating to alleged malpractice in the services, which could harm our reputation, brand image and results of operations.
- Failure to manage our clients’ expectations may lead to complaints and legal claims by our clients.
- We may be unable to retain our existing physicians or attract suitable physicians to join our Group.
- The recent outbreak of the contagious COVID-19 may have a material adverse effect on our business, results of operation, financial condition and prospects.
- Our revenue has historically been dependent on, and will remain heavily dependent on, our operations in the cities where our aesthetic medical institutions locate, namely Hangzhou City, Ruian City and Wuhu City. As such, we are especially sensitive to the local conditions and changes in these cities and the surrounding regions, such as, with respect to their economy, laws and regulations and occurrence of any natural disasters, acts of God and epidemics.
- We have recognized goodwill in connection with acquisitions and may recognize goodwill in connection with acquisitions in the future. If we determine that our goodwill has become impaired, it could adversely affect our results of operations and financial position.

### SHAREHOLDERS INFORMATION

Upon completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), our Controlling Shareholder, Mr. Fu, through Ruide BVI, will be entitled to exercise voting rights of approximately 53.98% of the total issued share capital of our Company. For more details, please refer to the section headed “Relationship with Our Controlling Shareholders” in this prospectus.

### PRE-IPO INVESTMENT

For details regarding the Pre-IPO Investments and the background of the Pre-IPO Investors, please refer to the section headed “History and Reorganization — Pre-IPO Investment” in this prospectus.

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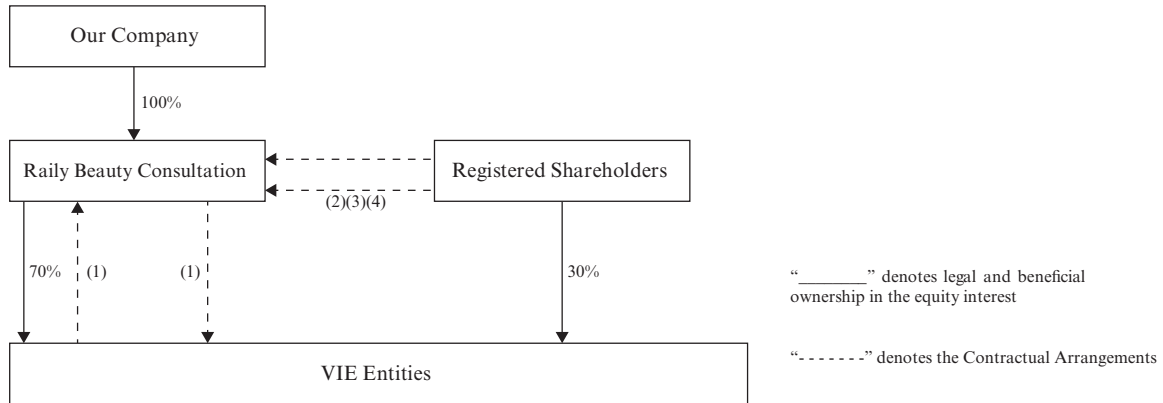
## SUMMARY

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### OUR CONTRACTUAL ARRANGEMENTS

As foreign investment in certain areas of the industry in which we currently operate in is subject to restrictions under current PRC laws and regulations as outlined above, we do not own 100% equity interest in the VIE Entities. The Contractual Arrangements apply to the 30% equity interest in the VIE Entities.

The following simplified diagram illustrates the flow of economic benefits from the VIE Entities to our Group as stipulated under the Contractual Arrangements:



*Notes:*

- (1) Payment of service fee from the VIE Entities to Raily Beauty Consultation in exchange of the provision of technical services, management support and consultancy services.
- (2) Exclusive option to acquire all or part of the Registered Shareholders' equity interest in the VIE Entities and/or all or parts of the assets of the VIE Entities.
- (3) Entrustment of shareholders' rights of the Registered Shareholders.
- (4) Pledge of equity interest by the Registered Shareholders of their equity interest in the VIE Entities.

For details, please refer to the section headed "Contractual Arrangements" in this prospectus.

## SUMMARY

### KEY OPERATING STATISTICS

The following table sets forth certain operational data of our aesthetic medical institutions as at 30 June 2020 (save for the utilisation rate):

Aesthetic medical institutions	Date of commencement of operation	Approximate GFA (sq.m.)	Number of physicians	Classification <sup>(1)</sup>	Number of operation rooms	Number of service rooms <sup>(2)</sup>	Utilisation rate <sup>(3)</sup> %	Breakeven period <sup>(4)</sup>	Investment payback period <sup>(5)</sup>
Hangzhou Raily	August 2013	2,751	34	I	4	28	63.0	29 months	52 months
Ruian Raily	March 2013	2,861	14	I	3	19	51.4	22 months	47 months
Raily Tiange	August 2008	986	8	II	2	11	63.0	12 months	45 months
Wuhu Raily	July 2015	1,374	8	II	2	13	64.4	19 months	41 months
							Overall utilisation rate:	60.0	

- Notes:*
- (1) “I” denotes an aesthetic medical specialty hospital and “II” denotes an aesthetic medical specialty out-patient department, while aesthetic medical specialty hospitals are allowed to perform more complex aesthetic surgical procedures than aesthetic medical specialty out-patient departments.
  - (2) Including consultation rooms, injection rooms, treatment rooms, dental services rooms and other services rooms.
  - (3) Utilisation rate for the nine months ended 30 September 2020 is calculated by dividing the actual number of hours of services offered by service capacity during the period. The service capacity for the period refers to the maximum number of service hours we can provide in our medical institution in the period which is calculated based on the product of: (i) the number of servicing sites in our aesthetic medical institutions dedicated for a specific type of aesthetic medical procedures (being the number of operation rooms for aesthetic surgical procedures and number of hospital beds dedicated for aesthetic injection procedures and energy-based procedures respectively); (ii) the maximum number of servicing hours per day (being 8 hours for operation room and 10 hours for hospital beds); and (iii) 274 working days.
  - (4) The approximate period from the commencement of operations of an aesthetic medical institution to the time when its monthly revenue first sufficiently covers its monthly operating expenses.
  - (5) The approximate period from commencement of operations of an aesthetic medical institution to the time when its accumulated net cash inflow is able to cover the total initial investment amount for its establishment (which includes investment by equity and shareholder loans).

While we can adjust our pricing and promotional strategy to increase our profitability, our business development and profitability is limited by the service capacity of our aesthetic medical institutions, for example, the availability of operation rooms and service rooms to provide aesthetic medical services to our clients. Our overall utilization rate for our four aesthetic medical institutions were high at approximately 80.6% for the year ended 31 December 2019. The decrease of the overall utilisation rate of our aesthetic medical institutions for the nine months ended 30 September 2020 was principally due to the decrease in aesthetic medical procedures performed for the period led by the decrease in overall number of clients. Such decrease of performance was mainly attributable to (i) the temporary suspension of operation due to the outbreak of COVID-19 from 1 February 2020 to the date of the respective partial resumption of operation of our aesthetic medical institutions in March 2020; (ii) the subsequent partial resumption of operation of our aesthetic medical institutions in March 2020 until the full resumption in April 2020; and (iii) the outbreak of COVID-19 pandemic which severely and adversely affected our clients’ willingness in visiting our aesthetic medical institutions and the general consumer spending sentiment in aesthetic medical services.

We experienced a lengthy investment payback period of an average of approximately 47 months; and a lengthy breakeven period of an average of approximately 21 months. Our Directors therefore expected that in establishing new aesthetic medical institutions, our Group will be subject to substantial cash flow pressure where our profits from existing aesthetic medical institutions may not generate sufficient profits to cover our operating expenses for any new aesthetic medical institutions before we reach the point of breakeven and investment payback.



## SUMMARY

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The tables below present the summaries of selected consolidated financial information of the Group for the Track Record Period, which are derived from, and should be read in conjunction with the Accountants' Report in Appendix I to this prospectus, including the notes thereto.

#### Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	112,932	158,935	191,156	92,081	58,730
Gross profit	74,542	92,493	101,038	47,174	24,286
Profit/(loss) before tax	23,332	26,383	16,388	4,790	(12,352)
Profit/(loss) for the year/ period	17,405	18,418	10,277	2,208	(11,777)
Total comprehensive income/ (loss) for the year/period	17,405	18,418	10,277	2,208	(11,846)
Attributable to:					
Owners of the parent	17,379	17,855	9,897	2,198	(12,000)
Non-controlling interests	26	563	380	10	223
	<u>17,405</u>	<u>18,418</u>	<u>10,277</u>	<u>2,208</u>	<u>(11,777)</u>

#### Non-IFRS measures

We recognised non-recurring items in the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also present the adjusted profit/loss before tax, adjusted profit/loss for the years/period and adjusted net profit margin as non-IFRS measures.

We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring listing expenses, which is considered not indicative for evaluation of the actual performance of our business. We believe that these non-IFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit/(loss) before tax	23,332	26,383	16,388	4,790	(12,352)
Profit/(loss) for the year/period	17,405	18,418	10,277	2,208	(11,777)
Adjusted for:					
— Listing expenses	—	2,349	15,316	7,392	9,727
Adjusted profit/(loss) before tax	23,332	28,732	31,704	12,182	(2,625)
Adjusted profit/(loss) for the year/period	17,405	20,767	25,593	9,600	(2,050)
Adjusted net profit/(loss) margin for the year/period	15.4%	13.1%	13.4%	10.4%	(3.5%)

Although these financial measures are reconcilable to the line items in the consolidated financial statements, they should not be considered as measures comparable to items in the consolidated financial statements in accordance with the IFRS. These measures may not be comparable to other similarly titled measures used by other companies.

## SUMMARY

The following table sets forth our revenue, gross profit and gross profit margin by types of services offered during the Track Record Period:

	Year ended 31 December												Six months ended 30 June							
	2017			2018			2019			2019			2020			Gross profit margin %				
	Revenue	% of total revenue	Gross profit	Gross profit margin %	Revenue	% of total revenue	Gross profit	Gross profit margin %	Revenue	% of total revenue	Gross profit	Gross profit margin %	Revenue	% of total revenue	Gross profit		Gross profit margin %			
																		RMB'000	RMB'000	RMB'000
Aesthetic medical services	112,932	100.0	74,542	66.0	146,256	92.0	87,160	59.6	183,609	96.1	96,290	52.4	88,699	96.3	45,943	51.8	57,476	97.9	23,645	41.1
Aesthetic surgery services	56,685	50.2	44,484	78.5	57,530	36.2	43,309	75.3	54,996	28.8	38,369	69.8	28,547	31.0	21,044	73.7	14,384	24.5	7,255	50.4
Minimally-invasive aesthetic services	28,854	25.5	12,438	43.1	40,310	25.4	17,044	42.3	55,942	29.3	23,882	42.7	26,176	28.4	9,660	36.9	20,196	34.4	7,247	35.9
Aesthetic dermatology services	24,011	21.3	17,578	73.2	41,768	26.3	26,414	63.2	58,092	30.4	35,213	60.6	25,798	28.0	14,877	57.7	18,417	31.4	10,211	55.4
Others <i>(Note)</i>	3,382	3.0	42	1.2	6,648	4.1	393	5.9	14,579	7.6	(1,174)	(8.1)	8,178	8.9	362	4.4	4,479	7.6	(1,068)	(23.8)
Aesthetic medical management consulting services	—	—	—	—	12,679	8.0	5,333	42.1	7,547	3.9	4,748	62.9	3,382	3.7	1,231	36.4	1,254	2.1	641	51.1
Total	112,932	100.0	74,542	66.0	158,935	100.0	92,493	58.2	191,156	100.0	101,038	52.9	92,081	100.0	47,174	51.2	58,730	100.0	24,286	41.4

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

Our revenue generated from our aesthetic medical services is primarily driven by the number of procedures performed in the relevant periods. The following table sets forth the number of our aesthetic medical services provided, the average spending per procedure, the number of active clients and the average spending per active client during our Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
<b>Aesthetic surgery services</b>					
Number of procedures performed	4,837	7,318	8,280	4,219	2,275
Average spending per procedure <sup>(1)</sup> (RMB)	11,719	7,861	6,642	6,766	6,323
Number of active clients	3,297	4,729	5,184	2,607	1,539
Average spending per active client <sup>(2)</sup> (RMB)	17,193	12,165	10,609	10,950	9,346
<b>Minimally-invasive aesthetic services</b>					
Number of procedures performed	22,595	44,948	55,773	22,594	21,492
Average spending per procedure <sup>(1)</sup> (RMB)	1,277	897	1,003	1,159	940
Number of active clients	9,554	16,560	21,978	11,135	9,338
Average spending per active client <sup>(2)</sup> (RMB)	3,020	2,434	2,545	2,351	2,163
<b>Aesthetic dermatology services</b>					
Number of procedures performed <sup>(3)</sup>	91,844	177,653	238,342	97,604	78,992
Average spending per procedure <sup>(1)</sup> (RMB)	261	235	244	264	233
Number of active clients	16,380	26,496	42,673	22,488	20,203
Average spending per active client <sup>(2)</sup> (RMB)	1,466	1,576	1,361	1,147	912

*Notes:*

- (1) We calculated the average spending per procedures by dividing the revenue of each type of aesthetic medical services by their relevant number of procedures performed during the year/period.

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## SUMMARY

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- (2) We calculated 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/period.
- (3) The number of procedures performed include trial procedures, retouch procedures and procedures performed as promotional gifts.

The number of procedures performed was on an overall increasing trend during the three years ended 31 December 2019, which was attributable to (i) the overall growing trend of the total revenue of the aesthetic medical service market in the PRC and Zhejiang province at a CAGR of 22.5% and 24.6%, respectively, due to growing acceptance of aesthetic medical services and increasing disposable income according to the Frost & Sullivan Report; (ii) our timely and successful adoption of new business retail philosophy by the Group to capture the growing aesthetic medical service market in the PRC; and (iii) the growing popularity of minimally-invasive aesthetic services and aesthetic dermatology services in the market, which enabled us to generate recurring income from repeat clients.

For the two years ended 31 December 2018, aesthetic surgery services segment was the largest contributor to our total revenue at approximately 50.2% and 36.2%, respectively. However, the proportion of aesthetic surgery services to our total revenue decreased gradually during the Track Record Period. The revenue generated from aesthetic surgery services decreased for the year ended 31 December 2019, which was mainly because of (i) the continuous innovation and technological developments of the aesthetic medical industry in recent years which significantly lowered the medical risk and shortened the recovery time of non-surgical aesthetic procedures, comparing with aesthetic surgery services. As such, certain aesthetic surgery services such as changing the shape of the nose and wrinkle reduction may be replaced by minimally-invasive aesthetic procedures by injection of botulinum toxin type A and dermal fillers, which was reflected in the approximately 98.9% and 24.1% increase in the number of procedures performed for minimally-invasive aesthetic services for the year ended 31 December 2018 and 2019 respectively; (ii) the decreasing prices of our aesthetic surgery services and minimally-invasive aesthetic services, which were reflected in the overall decreasing average spending per procedure and average spending per active client due to our pricing strategy to enhance competitiveness of our services; (iii) the introduction of new medical equipment for the provision of aesthetic dermatology services; and (iv) the different proportion of types of aesthetic surgery services performed with higher proportion of lipoplasty and fat transfer, which were relatively lower in price range. For the year ended 31 December 2019, the contribution of aesthetic surgery services to our revenue dropped to approximately 28.8%. For the six months ended 30 June 2020, the proportion of our aesthetic surgery services further decreased to approximately 24.5% of our total revenue, which was due to (i) the temporary suspension of Raily Tiange's aesthetic surgery services from May 2020 to June 2020 as a result of the accidental sewage piping leakage in proximity of its operation rooms. Raily Tiange, with aesthetic surgery services continued to be its largest source of revenue for the three years ended 31 December 2019; and (ii) the COVID-19 pandemic, which in particular, clients of aesthetic surgery services generally stay in aesthetic medical institutions for longer period of time as compared to other aesthetic medical services to undergo necessary procedures including consultations, various testings before the operation and the operation itself, thereby heightened the clients' perception of increased exposure and potential risks of infection.

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## SUMMARY

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Although minimally-invasive aesthetic services may be an alternative to certain aesthetic surgery services, the aesthetic effect of aesthetic injection procedures only lasts for a limited period of time, usually less than one year, and varies depending on the injection materials and clients' physical conditions. Therefore, many clients return for repeated procedures subsequently when the effects of their previous procedures require upkeep. From 2017 to 2019, we recorded significant year-on-year growth of approximately 39.7% and 38.8% in the revenue derived from minimally-invasive aesthetic services. Since (i) the aesthetic effect of minimally-invasive procedures only lasts for a limited period of time; (ii) the relatively shorter treatment time required for the completion of minimally-invasive procedures; and (iii) there are no alternative self-administered procedures which clients can perform at home to achieve aesthetic results close to those of minimally-invasive procedures, the COVID-19 pandemic has relatively small impact on minimally-invasive procedures, minimally-invasive aesthetic services segment thus became the largest contributor of our revenue at approximately 34.4% during the six months ended 30 June 2020.

Similar to minimally-invasive aesthetic services, aesthetic dermatology services usually require repeated visits to achieve or maintain the desired aesthetic effects. Our revenue derived from aesthetic dermatology services thus also recorded significant year-on-year growth of approximately 74.0% and 39.1% from 2017 to 2019. While also adversely affected by the temporary suspension of operations due to the COVID-19 pandemic, aesthetic dermatology services recorded a 28.6% decrease in revenue for the six months ended 30 June 2020, comparing with the same period in 2019.

Although our gross profit recorded a general increase, our gross profit margin, however, decreased during the Track Record Period from approximately 66.0% for the year ended 2017 to approximately 58.2% and 52.9% for the year ended 31 December 2018 and 2019, respectively primarily because of our service mix during the Track Record Period. We recorded highest gross profit margin with aesthetic surgery services because it mainly involved staff cost for the performance of surgery by our physicians and assistance to our physicians by medical staff; and lowest gross profit margin with minimally-invasive aesthetic services as they relied largely on the injection materials, which may either be manufactured locally in the PRC or imported from overseas.

Among our aesthetic medical services, we recorded gross losses and gross loss margins for other services for the year ended 31 December 2019 and the six months ended 30 June 2020, which primarily consisted of our aesthetic dental services and ancillary services such as anaesthesiology services, nursing services for inpatients and physical examination services. Our ancillary services recorded gross losses as we only charged minimal fee for most of our ancillary services since they were some of the key stages in the process of our aesthetic medical services. For example, physical examinations such as blood test, skin test or computed tomography, may be required to be conducted to ensure the medical condition of the client is suitable for the relevant procedure. It is our strategy to provide a full range of aesthetical medical services, which we believe can improve clients' experience and increase clients' retention. The gross loss margin deteriorated in the six months ended 30 June 2020 because clients of aesthetic surgery services and aesthetic dental services were required to undergo COVID-19 testings which were charged at cost as part of our pandemic preventive measures to minimise the risk of infection by our clients and staff. In order to improve the gross loss and gross loss margin for our other aesthetic medical services, we intend to implement several strategies, please refer to the section headed "Financial Information — Principal Components of our Results of Operations — Gross profit" in this prospectus for more details.

## SUMMARY

The following table sets forth contribution from each of our four aesthetic medical institutions to our revenue and the relevant gross profit and gross profit margin during the Track Record Period:

	Year ended 31 December												Six months ended 30 June					
	2017			2018			2019			2019			2019			2020		
	Revenue	% of total revenue	Gross profit	Revenue	% of total revenue	Gross profit	Revenue	% of total revenue	Gross profit	Revenue	% of total revenue	Gross profit	Revenue	% of total revenue	Gross profit	Revenue	% of total revenue	Gross profit
	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000
			%			%			%			%	(unaudited)	(unaudited)	(unaudited)			%
Hangzhou Raily	56,190	49.8	38,638	68.8	73,293	50.1	40,207	54.9	94,488	51.5	44,314	46.9	45,112	50.9	19,539	43.3	30,165	52.5
Ruian Raily	13,892	12.3	8,822	63.5	18,593	12.7	10,832	58.3	26,475	14.4	14,819	56.0	10,791	12.2	5,636	52.2	8,821	15.3
Raily Tiange	23,927	21.2	16,528	69.1	30,884	21.1	21,323	69.0	37,832	20.6	23,621	62.4	22,123	24.9	15,239	68.9	8,385	14.6
Wuhu Raily	18,923	16.7	10,554	55.8	23,486	16.1	14,798	63.0	24,814	13.5	13,536	54.5	10,673	12.0	5,529	51.8	10,105	17.6
<b>Total</b>	<b>112,932</b>	<b>100.0</b>	<b>74,542</b>	<b>66.0</b>	<b>146,256</b>	<b>100.0</b>	<b>87,160</b>	<b>59.6</b>	<b>183,609</b>	<b>100.0</b>	<b>96,290</b>	<b>52.4</b>	<b>88,699</b>	<b>100.0</b>	<b>45,943</b>	<b>51.8</b>	<b>57,476</b>	<b>100.0</b>

*Note:* Revenue generated from aesthetic medical management consulting services is excluded.

The profitability of each of our aesthetic medical institutions largely varied with its positioning and its service mix. Higher revenue proportion from aesthetic surgery services and aesthetic dermatology services would generally result in higher gross profit margin whereas higher proportion of revenue from minimally-invasive aesthetic services would generally result in lower gross profit margin.

During our Track Record Period, Hangzhou Raily has been rated as a 5A institution by the CAPA. As at the Latest Practicable Date, Hangzhou Raily, among all four of our aesthetic medical institutions, has the highest number of physicians and number of operating and service rooms. It is our largest aesthetic medical institutions in terms of revenue generation, contributing around half of our total aesthetic medical services revenue during the Track Record Period.

Despite being the smallest aesthetic medical institution among our Group in terms of GFA, Raily Tiange has been the second largest revenue contributor of our Group during the three years ended 31 December 2019 because of (i) the service mix with aesthetic surgery services being its largest segment contributing around half of its revenue during the three years ended 31 December 2019; and (ii) its positioning strategy by focusing on premium service experience including a more spacious and private environment with shorter waiting time. During the six months ended 30 June 2020, the gross profit and gross profit margin dropped most significantly in Raily Tiange because in addition to the temporary suspension of operation due to the COVID-19 pandemic, Raily Tiange was further affected by the accidental sewage piping leakage in proximity of its operation rooms, resulting in temporary closure of aesthetic surgery services for another two months from May 2020 to June 2020.

Ruian Raily and Wuhu Raily contributed similar proportion of revenue to our Group during the Track Record Period. Gross profit remained stable for Wuhu Raily and its gross profit margin managed to increase slightly from 51.8% during the six months ended 30 June 2019 to 53.1% during the same period in 2020 because the impact of COVID-19 pandemic in Anhui Province, in which Wuhu Raily is located, was less severe than that in Zhejiang Province during the six months ended 30 June 2020.

## SUMMARY

Our net profit margin decreased during the Track Record Period from approximately 15.4% for the year ended 31 December 2017 to 11.6% for the year ended 31 December 2018 and further to approximately 5.4% for the year ended 31 December 2019 primarily due to (i) the decreasing gross profit margin as set forth above; and (ii) the impact of listing expenses in preparation for the Listing for the year ended 31 December 2019. With the reduced client flow and the listing expenses of RMB9.7 million, our Group recorded loss for the six months ended 30 June 2020 of approximately RMB11.8 million.

### Selected Items of Consolidated Statements of Financial Position

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<b>Assets</b>				
Non-Current assets	49,708	75,237	89,826	86,004
— Property, plant and equipment	11,418	19,063	24,119	22,203
— Right-of-use assets	13,853	27,401	25,121	22,601
— Goodwill	20,639	20,639	20,639	20,210
Current assets	32,389	42,599	93,307	85,794
— Supplies	4,177	6,087	7,894	6,536
— Trade receivables	4,381	5,097	8,321	5,418
— Cash and cash equivalents	9,418	20,355	49,410	27,499
<b>Liabilities</b>				
Non-Current liabilities	11,572	21,836	19,790	17,224
— Lease liabilities	11,512	20,927	19,765	17,172
Current liabilities	54,858	81,010	70,068	73,145
— Interest-bearing bank and other borrowings	—	—	6,948	15,005
— Trade payables	5,953	6,463	8,475	10,323
— Lease liabilities	3,749	6,240	6,619	6,747
<b>Net current (liabilities)/assets</b>	<b>(22,469)</b>	<b>(38,411)</b>	<b>23,239</b>	<b>12,649</b>
<b>Net assets</b>	<b>15,667</b>	<b>14,990</b>	<b>93,275</b>	<b>81,429</b>
<b>Total Equity</b>	<b>15,667</b>	<b>14,990</b>	<b>93,275</b>	<b>81,429</b>
— Share capital	—	325	4	4
— Reserves	16,281	14,716	93,054	80,985
— Non-controlling interests	(614)	(51)	217	440

Our group recorded net current liabilities of approximately RMB22.5 million and RMB38.4 million as at 31 December 2017 and 2018, which was mainly due to our other payables and accruals, which primarily included the other payables to four Independent Third Parties of approximately RMB13.6 million. As at 31 December 2019, our Group changed from net current liability position to net current asset position, primarily due to (i) the settlement of the other payables to four Independent Third Parties as stated above; and (ii) the increase in cash and cash equivalents generated from the net proceeds from the issue of shares to Pre-IPO investors.

For more details, please refer to section headed “Financial Information — Net Current Liabilities/Assets” in this prospectus.



## SUMMARY

Our Group recorded net assets of approximately RMB15.7 million, RMB15.0 million and RMB93.3 million as at 31 December 2017, 2018 and 2019 respectively. There is a significant increase in net assets as at 31 December 2019 of approximately RMB78.3 million, which was primarily due to the proceeds received from Pre-IPO Investors of approximately RMB80.1 million in April 2019 for our business expansion. As at 30 June 2020, our Group's net assets decreased to approximately RMB81.4 million, due to the net loss recorded for the six months ended 30 June 2020.

### Summary of Consolidated Cash Flows Information

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Operating cash flows before movements in working capital	32,642	37,712	29,811	11,657	(5,804)
Movements in working capital	<u>1,979</u>	<u>(1,685)</u>	<u>(2,752)</u>	<u>3,856</u>	<u>732</u>
Cash generated from/(used in) operations	34,621	36,027	27,059	15,513	(5,072)
Income tax paid	<u>(73)</u>	<u>(3,970)</u>	<u>(10,078)</u>	<u>(8,195)</u>	<u>(4,166)</u>
Net cash flows from/(used in) operating activities	34,548	32,057	16,981	7,318	(9,238)
Net cash flows used in investing activities	(21,468)	(35,999)	(37,132)	(49,221)	(18,240)
Net cash flows from/(used in) financing activities	(12,227)	14,879	49,202	54,840	5,562
Cash and cash equivalents at end of the year/period	9,418	20,355	49,410	33,305	27,499

During the three years ended 31 December 2019, we recorded positive net operating cash flows. As a result of the loss before tax for the six months ended 30 June 2020 due to temporary suspension of operations and listing expenses, we recorded negative net operating cash flows during the six months ended 30 June 2020. We recorded cash flow used in investing activities during the Track Record Period, which was primarily due to the increase in amounts due from the controlling shareholder, purchases of new medical equipment; and purchases of financial investment products. Our net cash used in financing activities of RMB12.2 million in 2017 was due to repayment of loan and lease liabilities.

Due to the outbreak of COVID-19, we recorded negative net operating cash flows during the six months ended 30 June 2020. In order to mitigate the impact of the outbreak of COVID-19 on our working capital, we adopted the following measures: (i) enhancing our online marketing to re-attract our clients by maintaining effective communication with our clients through our client service team and organizing promotional campaigns to resume our clients' demands for our services; (ii) adopting additional precautionary measures in order to gain clients' confidence in our hygienic environment in our aesthetic medical institutions, please refer to the section headed "Business — Impact of Outbreak of COVID-19 on our Operation in the PRC — Precautionary measures and contingency plan in response to COVID-19" for more details; (iii) closely monitoring our collection of receivables and payment of payables to maintain better cashflow position; and (iv) actively identifying additional funding sources for working capital. As at 31 October 2020, being the latest practicable date for the indebtedness statement, our Group had unutilised banking facilities for working capital purposes of approximately RMB2.0 million. For details, please refer to section headed "Financial Information — Indebtedness" for more details.

## SUMMARY

### Key Financial Ratios

	As at 31 December/ Year ended 31 December			As at 30 June/ six months ended 30 June 2020
	2017	2018	2019	2020
Gross profit margin	66.0%	58.2%	52.9%	41.4%
Net profit/(loss) margin	15.4%	11.6%	5.4%	(20.1%)
Current ratio <sup>(1)</sup>	0.6	0.5	1.3	1.2
Quick ratio <sup>(2)</sup>	0.5	0.5	1.2	1.1
Gearing ratio <sup>(3)</sup>	97.4%	181.2%	35.7%	47.8%
Net debt to equity ratio <sup>(4)</sup>	37.3%	45.4%	N/A	14.0%
Return on assets <sup>(5)</sup>	21.2%	15.6%	5.6%	N/A
Return on equity <sup>(6)</sup>	111.1%	122.9%	11.0%	N/A

- Notes:*
- (1) Current ratio is calculated dividing total current assets by total current liabilities as at the end of each year/period.
  - (2) Quick ratio is calculated by dividing total current assets less supplies by total current liabilities as at the end of each year/period.
  - (3) Gearing ratio is calculated by dividing total debt by total equity as at the end of each year/period and multiplying the result by 100%. Total debt represents the sum of current and non-current portion of interest-bearing borrowings.
  - (4) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of each year/period, and multiplying the result by 100%. Net debt represents the sum of current and non-current portion of interest-bearing borrowings, net of cash and cash equivalents.
  - (5) Return on assets is calculated by dividing net profit by total assets as at the end of the respective year and multiplied by 100%.
  - (6) Return on equity is calculated by dividing net profit by total equity as at the end of the respective year and multiplied by 100%.

For more details of our financial ratios, please refer to the section headed “Financial Information — Key Financial Ratios” in this prospectus.

### PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2020

We have prepared the following profit forecast for the year ending 31 December 2020.

Forecast consolidated profit attributable to owners of the Company <sup>(1)</sup>	Not less than RMB4.2 million (equivalent to HK\$5.0 million)
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Unaudited pro forma forecast earnings per Share <sup>(2)</sup>	Not less than RMB0.002 (equivalent to HK\$0.002)
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*Notes:*

- (1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2020 have been prepared are summarized in the “Profit Forecast” in Appendix III to this prospectus. Our forecast consolidated profit attributable to owners of the Company for the year ending 31 December 2020, for which our Directors are solely responsible, has been prepared by them based on (i) the audited consolidated financial information of our Group for the six months ended 30 June 2020 as set out in the Accountants’ Report in Appendix I to this prospectus; (ii) the unaudited consolidated results based on management accounts of our Group for the four months ended 31 October 2020; and (iii) a forecast of the consolidated results of our Group for the remaining two months ending 31 December 2020 taking into account the estimated total listing expenses of approximately RMB15.1 million for the year ending 31 December 2020, in the absence of unforeseen circumstances, and in particular the resurgence of the outbreak of COVID-19 in the PRC. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarized in the “Accountants’ Report” as set out in Appendix I to this prospectus.

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## SUMMARY

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- (2) The calculation of the unaudited pro forma forecast earnings per Share for the year ending 31 December 2020 is based on the forecast consolidated profit attributable to owners of the Company for the year ending 31 December 2020, assuming the Global Offering had been completed on 30 June 2020 and a total of 2,055,000,000 Shares were in issue during the entire year, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

### RECENT DEVELOPMENT

There has been an outbreak of the novel coronavirus, COVID-19, since January 2020 across China and around the world. The relevant nation-wide policy to contain the outbreak of COVID-19, including temporary suspension of work in various provinces and cities, and the general negative impact of COVID-19 on consumers' spending sentiment, have significantly and adversely affected our Group's business operation and financial performance in 2020. In compliance with relevant public announcements and notices issued by governmental authorities to contain the outbreak of COVID-19, our Group had temporarily suspended all services of our aesthetic medical institutions from 1 February 2020 until their respective partial resumption of operation in March 2020 and full resumption of all aesthetic medical services in April 2020. As a result of such temporary suspension of operation, our Group's aesthetic medical service business had plummeted in the first quarter of 2020 where we recorded nil revenue for the month of February 2020. With the partial resumption of operation of our aesthetic medical institutions since March 2020, the number of active clients visiting our aesthetic medical institutions and the number of aesthetic medical procedures performed started to recover in the second quarter of 2020, with an increase of approximately 102.4% and 64.2%, respectively, comparing with the first quarter of 2020. With the gradual containment of COVID-19 in the PRC and the corresponding recovery of the general economic environment in the PRC, the number of active clients visiting our aesthetic medical institutions as well as the number of aesthetic medical procedures performed have further improved in the third quarter of 2020, with an increase of approximately 8.1% and 61.4%, respectively, comparing with the second quarter of 2020. Based on our internal record, our number of active clients for the third quarter of 2020 reached approximately 24,000, being approximately 10.7% more than the number of active clients for the corresponding period in 2019; while our number of procedures performed for the third quarter of 2020 reached approximately 103,000, being approximately 11.0% more than the number of procedures performed for the corresponding period in 2019. However, despite our rapid recovery of business and client flow following the gradual containment of the outbreak of COVID-19 in 2020 and our improved performance in the third quarter of 2020 abovementioned, our revenue and gross profit for the ten months ended 31 October 2020 decreased by approximately 19.2%, 26.6%, respectively; while our net profit decreased by approximately 104% to a net loss position, comparing with the corresponding period in 2019, based on the unaudited consolidated management accounts of our Company. As non-IFRS measures, our adjusted profit for the ten months ended 31 October 2020 decreased by 34.0% as compared to the corresponding period in 2019, based on the unaudited consolidated management accounts of our Company. Our Directors further expect that the financial performance for the year ending 31 December 2020 will be in decline comparing with that for the year ended 31 December 2019 mainly due to the impact of the outbreak of COVID-19. For details on the profit forecast for the year ending 31 December 2020, please refer to the section headed "Financial Information — Profit Forecast for the year ending 31 December 2020" in this prospectus.

Under the general adverse impact of COVID-19 on consumers' spending sentiment in aesthetic medical services, our Group has experienced a particularly drastic decrease in revenue contribution from aesthetic surgery services among our aesthetic medical services. Aesthetic surgery services, comparing with aesthetic dermatology services and minimally-invasive aesthetic services, generally require relatively longer treatment time, recovery time and more frequent visits to our aesthetic medical institutions, thereby having heightened consumers' perception of increased exposure and risks of infection, among our aesthetic medical services. Based on the unaudited consolidated management accounts of our Company for the ten months ended 31 October 2020, our revenue generated from aesthetic surgery services significantly decreased by approximately 46.6%; while our revenue

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## SUMMARY

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generated from minimally-invasive aesthetic services and aesthetic dermatology services in aggregate only decreased by approximately 1.0%, comparing with the same period in 2019. Despite the improving number of active clients visiting our aesthetic medical institutions and the number of aesthetic medical procedures performed since the second quarter of 2020, the decreasing proportion of revenue generated from aesthetic surgery services with relatively higher gross profit margin resulted in a decrease in the overall gross profit margin of our aesthetic medical services, and thus a lower profit level for our Group for the relevant period.

Our Directors are of the view that the outbreak of COVID-19 shall only have a temporary impact on our Group, considering that (i) save for one confirmed case found in Anhui Province on 10 November 2020, Zhejiang Province and Anhui Province have not recorded any new local confirmed COVID-19 cases since 16 June 2020 and 28 February 2020, respectively up to the Latest Practicable Date; (ii) our number of active clients for the nine months ended 30 September 2020 reached approximately 51,000, being approximately 95.5% of the number of active clients for the corresponding period in 2019; (iii) our number of procedures performed for the nine months ended 30 September 2020 has even slightly increased by approximately 1.4% to approximately 220,000 comparing with the corresponding period in 2019; and (iv) other information currently available to our Directors. As such our Directors believe that our client flow and business would gradually resume to a level before the outbreak of COVID-19.

In order to mitigate the adverse impact of the outbreak of COVID-19 on our business and resume our clients' demands for our services, we adopted various precautionary measures and costs control measures. For details, please refer to the section headed "Business — Impact of Outbreak of COVID-19 on our Operation in the PRC — Precautionary measures and contingency plan in response to COVID-19" in this prospectus.

Since the full resumption of operation of our Group's aesthetic medical institutions in April 2020 and up to the Latest Practicable Date, we have not received any correspondences or notices from any governmental authorities nor our Directors are aware of any laws, regulations, announcement or notices being issued by any governmental authorities imposing any controls or restrictions in relation to the outbreak COVID-19 that may materially affect the operation of our Group. In the worst case scenario where all of our operations were suspended from 1 November 2020 onwards due to the further outbreak of COVID-19, to the best estimate of our Directors, the monthly cash outflow in such situation would be approximately RMB1.5 million per month. Our key assumptions of the worst case scenario where our operation are forced to be suspended for a prolonged period due to the impact of COVID-19 include: (i) we will not generate any income due to the suspension of operation; (ii) rental related payments including rental fees and other miscellaneous charges are fully paid monthly; (iii) minimal operating and administrative expenses will be incurred to maintain our operations at a minimum level; (iv) we will refund all of the services fees received in advance (including the service fees received pursuant to our service plans offered); (v) our estimates of settlement of trade receivables and trade payables as at 31 October 2020 based on historical settlement pattern; (vi) our expansion plan is delayed under such condition; (vii) there will be no further internal or external financing from Shareholders or financial institutions; and (viii) no further dividend will be declared and paid under such situation. Based on the working capital available for our Group as at 31 October 2020 together with part of the net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses, and assuming an Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative Offer Price Range, and that the Over-allotment Option is not exercised) intended for working capital and other general corporate purposes, in the approximate sum of HK\$5.6 million (equivalent to approximately RMB4.7 million), our Directors believe that such sum will be able to support the monthly cash demand for approximately 24 months.

Our Directors will continue to assess the impact of the outbreak of COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the pandemic. The development of COVID-

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## SUMMARY

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19 pandemic in China, and especially in cities where our aesthetic medical institutions locate, is beyond our control. Our Directors expect that, subject to the development of the pandemic and if the pandemic reoccurs and/or continues, such pandemic would adversely affect the business, results of operations and financial position of our Group. For details of the relevant risk, please refer to the section headed “Risk Factors — Risk Relating to our Business — The recent outbreak of the contagious COVID-19 may have a material adverse effect on our business, results of operation, financial condition and prospects” in this prospectus.

### **MATERIAL ADVERSE CHANGES**

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, save for the extent disclosed in the paragraph headed “Recent Development” above and the listing expenses to be incurred as detailed in the section headed “Financial Information — Listing Expenses” in this prospectus, (i) there were no material adverse changes in the market conditions or the industry environment in which we operate that would materially and adversely affect our financial or operating position subsequent to the Track Record Period and up to the date of this prospectus; (ii) there was no material adverse change in the trading and financial position or prospects of our Group subsequent to the Track Record Period and up to the date of this prospectus; and (iii) no event had occurred subsequent to the Track Record Period and up to the date of this prospectus that would materially and adversely affect the information shown in the Accountants’ Report in Appendix I to this prospectus.

### **DIVIDEND**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, we declared dividends of nil, approximately RMB19.4 million, RMB12.0 million and nil, respectively. All dividends declared for the two years ended 31 December 2019 had been fully settled in January 2020, among which approximately RMB12.6 million had been settled by cash and approximately RMB18.8 million had been settled by setting-off the amount due from the Controlling Shareholder and related companies. Pursuant to the Shareholders’ written resolutions of our Company dated 12 April 2019, for the purpose of continuous development of our Group’s subsidiaries in the PRC, it was resolved that those subsidiaries of our Company established in the PRC will not distribute earnings for the period from 1 April 2019 to 31 December 2019. The RMB12.0 million dividend declared for the year ended 31 December 2019 were distribution of retained earnings accumulated prior to 1 April 2019. Whether dividends will be paid and the amount of dividends to be paid will depend on our profitability, financial condition, business development, future prospects, future cash flow and such other factors as our Directors may consider relevant at the time of declaration of any dividends. It is also subject to the discretion of our Directors and the approval of our Shareholders. We do not have any pre-determined payout ratio. For further details, please refer to the section headed “Financial Information — Dividend” in this prospectus.

### **NON-COMPLIANCE MATTERS**

Except as disclosed in the section headed “Business — Legal Proceedings and Compliance”, we complied with the laws and regulations of the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.



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## SUMMARY

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### KEY OFFERING STATISTICS

	<b>Based on an Offer Price of HK\$0.30 per Offer Share</b>	<b>Based on an Offer Price of HK\$0.40 per Offer Share</b>
Market capitalization of our Shares <sup>(1)</sup>	HK\$616.5 million	HK\$822.0 million
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(2)</sup>	HK\$0.07	HK\$0.08

*Notes:*

- (1) The calculation of market capitalization is based on 2,055,000,000 Shares expected to be in issue immediately upon completion of the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the section headed “Financial Information — Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets” in this prospectus and on the basis that 2,055,000,000 Shares are in issue assuming that the Global Offering has been completed on 30 June 2020 and at the respective Offer Price of HK\$0.30 per Share, being the low end of the indicative Offer Price range, and an Offer Price of HK\$0.40 per Share, being the high end of the indicative Offer Price range, excluding Shares which may be issued upon the exercise of the Over-allotment Option.

### LISTING EXPENSES

Our listing expenses are non-recurring in nature and represent professional fees, underwriting commission of the Global Offering, and other fees and expenses incurred in connection with the Listing and the Global Offering. Assuming the Over-allotment Option is not exercised, based on the Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative range of the Offer Price, the total estimated listing expenses (including the underwriting commission for both the Hong Kong Public Offering and the International Placing) are estimated to be approximately HK\$63.9 million (equivalent to approximately RMB53.7 million), of which (i) approximately HK\$25.0 million (equivalent to approximately RMB21.0 million) directly attributable to the issue of the Offer Shares in the Listing is to be accounted for as a deduction from equity in accordance with the relevant accounting standard; (ii) approximately HK\$2.8 million (equivalent to approximately RMB2.3 million) and HK\$18.2 million (equivalent to approximately RMB15.3 million) and HK\$11.6 million (equivalent to approximately RMB9.7 million) that had been expensed through the consolidated statements of profit or loss for the two years ended 31 December 2019 and the six months ended 30 June 2020, respectively; and (iii) approximately HK\$6.3 million (equivalent to approximately RMB5.4 million) is to be charged to the profit or loss of our Group for the year ending 31 December 2020. Our listing expenses represented approximately 53.3% of our gross proceeds of the Global Offering. The estimated listing expenses are subject to adjustments based on the actual amount of expenses incurred or to be incurred by our Group upon completion of the Listing. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2020 would be materially and adversely affected by the listing expenses mentioned above.



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## SUMMARY

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### USE OF PROCEEDS

We estimate that the aggregate net proceeds of the Global Offering (after deducting underwriting commissions and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.30 to HK\$0.40 per Offer Share) will be approximately HK\$56.0 million. We currently intend to apply such net proceeds in the following manner:

- approximately HK\$15.7 million (equivalent to approximately 28.0% of our total estimated net proceeds) will be used for renovating all our existing aesthetic medical institutions and expand our Hangzhou Raily, Raily Tiange and Wuhu Raily, in order to increase capacity, refresh our brand image and expand our market share;
- approximately HK\$15.7 million (equivalent to approximately 28.0% of our total estimated net proceeds) will be used for funding the capital expenditure and initial operating costs for establishing our new aesthetic medical institution in Shanghai City;
- approximately HK\$8.4 million (equivalent to approximately 15.0% of our total estimated net proceeds) will be used for potential strategic acquisition of aesthetic medical institutions in Zhejiang Province in the PRC;
- approximately HK\$6.1 million (equivalent to approximately 11.0% of our total estimated net proceeds) will be used for the purchase of aesthetic medical service equipment and medical consumables to improve certain aesthetic medical procedures and to extend the spectrum of our aesthetic medical service;
- approximately HK\$4.5 million (equivalent to approximately 8.0% of our total estimated net proceeds) will be used for active promotion of our brand; and
- approximately HK\$5.6 million (equivalent to approximately 10.0% of our total estimated net proceeds) for our working capital and other general corporate purposes.

For more details, please refer to section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following words and expressions shall have the meanings set out below. Certain other terms are defined in the section headed “Glossary of Technical Terms” in this prospectus.*

“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“affiliate(s)”	any other person(s), directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them which is used in relation to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on 4 December 2020 with effect from the Listing Date, as amended or supplemented from time to time, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of our Board
“Beauty Milkway”	Beauty Milkway (HK) Limited (美天下責任(香港)有限公司), a company incorporated under the laws of Hong Kong on 6 June 2018, which is one of the Pre-IPO Investors
“Board” or “our Board”	the board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 1,712,440,666 Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information — A. Further Information about our Group — 4. Resolutions in writing of the Shareholders passed on 4 December 2020” in Appendix V to this prospectus

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## DEFINITIONS

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“CCASS”	Central Clearing and Settlement System
“CCASS Clearing Participant”	a person admitted to participate in CCASS as direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participants”	collectively, a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFDA”	China Food and Drug Administration (國家食品藥品監督管理總局)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus only and except where the context requires otherwise, references in this prospectus to “China” or “PRC” do not include Hong Kong, the Macau Special Administrative Region and Taiwan
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Act” or “Cayman Companies Act”	Companies Act (2020 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Company”, “our Company”	Raily Aesthetic Medicine International Holdings Limited (瑞麗醫美國際控股有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on 2 January 2018, and registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on 25 June 2019
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Raily Tiange, Hangzhou Raily, Ruian Raily and the Registered Shareholders, details of which are described in the section headed “Contractual Arrangements” in this prospectus
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of our Company, means Mr. Fu and Ruide BVI or, where the context so requires, any one of them
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report as set in Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“COVID-19”	novel coronavirus (COVID-19), a coronavirus disease
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in PRC
“Deed of Indemnity”	the deed of indemnity dated 4 December 2020 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) to provide certain indemnities, further information on which is set forth in the section headed “Statutory and General Information — D. Other Information — 2. Estate duty, tax and other indemnities” in Appendix V to this prospectus
“Director(s)”	the director(s) of our Company
“EIT Law”	the Enterprises Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which was promulgated on 16 March 2007 and last amended on 29 December 2018

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## DEFINITIONS

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“Eligible Person(s)”	employees of Wuhu Raily who are PRC nationals and who have contributed to the development of Wuhu Raily
“Elstone Securities”	Elstone Securities Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 4 (Advising on securities) regulated activities, being a Joint Global Coordinator, a Joint Bookrunner and a Joint Lead Manager
“Employee Profit Distribution Scheme”	the employee profit distribution scheme adopted by Ningbo Ruixuan on 30 May 2019 for Eligible Person(s), the principal terms of which are set out in the section headed “History and Reorganization — Corporate Structure” in this prospectus
“Extreme Conditions”	extreme conditions caused by a super typhoon in force in Hong Kong
“Foreign Investment Law”	Foreign Investment Law (《中華人民共和國外商投資法》) adopted by the second session of the 13th NPC on 15 March 2019 and became effective on 1 January 2020
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an Independent Third Party and an independent market research expert
“Frost & Sullivan Report”	the industry report prepared by Frost & Sullivan and commissioned by our Company, the content of which is quoted in this prospectus
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by <b>HK eIPO White Form</b> Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company, its subsidiaries and the VIE Entities from time to time
“Guangzhou Yingjieshi”	Guangzhou Yingjieshi Management Consulting Co., Ltd. (廣州英傑仕管理諮詢有限公司), a company established under the laws of the PRC with limited liability on 10 June 2015, and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization

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## DEFINITIONS

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“Handan Guangshu”	Handan Guangshu Aesthetic Medical Consultation Service Centre (LLP) (邯鄲市光曙醫療美容諮詢服務中心(有限合夥)), formerly known as Handan Raily Aesthetic Medical Consultation Service Centre (LLP) (邯鄲市瑞麗醫療美容諮詢服務中心(有限合夥)), a limited liability partnership established under the laws of the PRC on 22 April 2016, which is directly owned by Mr. Fu as to 99% and by Mr. Jin Chonghai as to 1% as at the Latest Practicable Date
“Hangzhou Puhe”	Hangzhou Puhe Investment Management Co., Ltd. (杭州普合投資管理有限公司), a company established under the laws of the PRC with limited liability on 3 April 2008, which is directly wholly owned by Mr. Fu as at the Latest Practicable Date
“Hangzhou Raily”	Hangzhou Raily Aesthetic Medical Hospital Co., Ltd. (杭州瑞麗醫療美容醫院有限公司), a company established under the laws of the PRC with limited liability on 9 August 2013, and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization
“HK\$” or “HK dollars”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online at the designated website of the <b>HK eIPO White Form</b> Service Provider at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or in the <b>IPO App</b>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or in the <b>IPO App</b>
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Offer Shares”	the 34,250,000 Shares initially being offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering, subject to re-allocation as described in the section headed “Structure of the Global Offering” in this prospectus



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## DEFINITIONS

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“Hong Kong Public Offering”	the conditional offering by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 14 December 2020 in relation to the Hong Kong Public Offering entered into by, among others, our Company, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this prospectus
“Huamei Medical”	Huamei Medical Investment Fund Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability on 28 May 2018, which is one of the Pre-IPO Investors
“IFRS”	International Financial Reporting Standards, which include standards, amendments and interpretations issued by the International Accounting Standards Board
“Independent Third Party(ies)”	individual(s) or company(ies) who is/are not a connected person(s) of our Company within the meaning ascribed under the Listing Rules
“Innovax Capital” or “Sole Sponsor”	Innovax Capital Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the sole sponsor of the Global Offering
“Innovax Securities”	Innovax Securities Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities, being a Joint Global Coordination, a Joint Bookrunner and a Joint Lead Manager

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## DEFINITIONS

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“International Placing”	the conditional placing of the International Placing Shares at Offer Price to selected professional, institutional and other investor as described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 308,250,000 Shares expected to be initially offered by the Company for subscription pursuant to the International Placing, representing 90% of the initial number of the Offer Shares, subject to re-allocation and the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the conditional international underwriting agreement relating to the International Placing and expected to be entered into by, among others, our Company and the International Underwriters on or about the Price Determination Date
“IPO App”	the mobile application for <b>HK eIPO White Form</b> service which can be downloaded by searching “ <b>IPO App</b> ” in App Store or Google Play or download at <a href="http://www.hkeipo.hk/IPOApp">www.hkeipo.hk/IPOApp</a> or <a href="http://www.tricorglobal.com/IPOApp">www.tricorglobal.com/IPOApp</a>
“Issue Mandate”	the general unconditional mandate given to our Directors relating to the issue of new Shares, as further described in the section headed “Statutory and General Information — 4. Resolutions in writing of the Shareholders passed on 4 December 2020” in Appendix V to this prospectus
“Jiumei Xinhe”	Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd. (深圳市九美信禾醫療器械有限公司), a company established under the laws of the PRC with limited liability on 6 November 2013, which is owned as to 10% by Shenzhen Ruiquan and owned as to 90% by two Independent Third Parties as at the Latest Practicable Date
“Joint Bookrunners”	Innovax Securities, Elstone Securities, BOCOM International Securities Limited, Essence International Securities (Hong Kong) Limited and First Fidelity Capital (International) Limited
“Joint Global Coordinators”	Innovax Securities and Elstone Securities

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## DEFINITIONS

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“Joint Lead Managers”	Innovax Securities, Elstone Securities, BOCOM International Securities Limited, Essence International Securities (Hong Kong) Limited, First Fidelity Capital (International) Limited, Kirin Securities Limited, Kingkey Securities Group Limited, Realord Asia Pacific Securities Limited and Sun International Securities Limited
“Latest Practicable Date”	8 December 2020, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings of the Shares on the Main Board of the Stock Exchange first commence, which is expected to be on or around Monday, 28 December 2020
“Listing Rules”	the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM
“Medical Mediation Committee”	the People’s Mediation Committee for Medical Disputes (醫療糾紛人民調解委員會)
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, a summary of which is set out in Appendix IV to this prospectus, and as amended from time to time
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Fu” or “Chairman”	Mr. Fu Haishu (傅海曙), our chairman, an executive Director and one of our Controlling Shareholders
“Mr. Yu” or “Chief Executive Officer”	Mr. Yu Kai (余凱), an executive Director and the chief executive officer of our Company
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

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## DEFINITIONS

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“NHFPC”	National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), currently known as National Health Commission of the PRC (中華人民共和國國家衛生健康委員會)
“Ningbo Ruixuan”	Ningbo Ruixuan Investment Management Partnership (LLP) (寧波瑞炫投資管理合夥企業(有限合夥)), a limited liability partnership established under the laws of the PRC on 11 December 2017, one of the Registered Shareholders. As of the Latest Practicable Date, Ningbo Ruixuan was directly owned by Mr. Fu as to 95% and Hangzhou Puhe as to 5%, respectively. As Hangzhou Puhe was directly wholly owned by Mr. Fu, Ningbo Ruixuan was indirectly wholly owned by Mr. Fu as of the Latest Practicable Date
“Ningbo Zhuerli”	Ningbo Zhuerli Beauty Consulting Service Co., Ltd. (寧波珠兒麗美容諮詢服務有限公司), a company established under the laws of the PRC with limited liability on 13 April 2017 and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization
“NMPA”	National Medical Products Administration (國家藥品監督管理局), formally known as the China Food and Drug Administration (國家食品藥品監督管理總局)
“Nomination Committee”	the nomination committee of the Board established by the Board
“NPC”	The National People’s Congress (中國人民代表大會) and its Standing Committee
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) under the Global Offering which is expected to be determined as further described in the section headed “Structure of the Global Offering” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option

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## DEFINITIONS

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“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to 51,375,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to cover over-allocations in the International Placing (if any) as further described in the section headed “Structure of the Global Offering” in this prospectus
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to our Company as to PRC laws
“PRC Operating Entities”	Raily Beauty Consultation, Raily Tiange, Hangzhou Raily, Ruian Raily, Ningbo Zhuerli, Guangzhou Yingjieshi, Raily Equipment, Wuhu Raily and Shenzhen Ruiquan, the financial results of which have been consolidated and accounted as the subsidiaries of our Company through equity interests and/or by virtue of the Contractual Arrangements
“Pre-IPO Investments”	the pre-IPO investments in our Company undertaken by the Pre-IPO Investors, details of which are set out in the section headed “History and Reorganization — Pre-IPO Investment — Principal Terms of the Pre-IPO Investments” in this prospectus
“Pre-IPO Investors”	Youxin Management, Beauty Milkway, Success Concept, Mr. Cheng Lei Jack, Huamei Medical, Shanghai Paibo and Shanghai Donghua
“Price Determination Agreement”	the agreement to be entered into between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date to fix and record the Offer Price
“Price Determination Date”	the date, expected to be on or about Friday, 18 December 2020, and in any event no later than Sunday, 20 December 2020, on which the Offer Price is determined for the purpose of the Global Offering
“Raily Beauty Consultation”	Hangzhou Raily Beauty Consultation Co., Ltd. (杭州瑞麗美容諮詢服務有限公司), a company established under the laws of the PRC with limited liability on 10 March 2005 and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization

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## DEFINITIONS

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“Raily BVI”	Raily Medical Management Limited (瑞麗醫療管理有限公司), a BVI business company incorporated in the BVI on 16 January 2018 with limited liability and a direct wholly owned subsidiary of our Company upon completion of the Reorganization
“Raily Equipment”	Wuhu Raily Medical Equipment Trading Co., Ltd. (蕪湖瑞麗醫療器械貿易有限公司), a company established under the laws of the PRC with limited liability on 17 September 2015 and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization
“Raily HK”	Raily Medical Limited (瑞麗醫療有限公司), a company incorporated under the laws of Hong Kong with limited liability on 2 February 2018 and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization
“Raily Tiange”	Hangzhou Raily Tiange Plastic Surgery Clinic Co., Ltd. (杭州瑞麗天鵠整形外科門診部有限公司), a company established under the laws of the PRC with limited liability on 28 September 2007 and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization
“Registered Shareholders”	the shareholders of Raily Tiange, Hangzhou Raily and Ruian Raily including Mr. Fu and Ningbo Ruixuan
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganization”	the reorganization of our Group in preparation for the Listing, details of which are set out in the section headed “History and Reorganization — Reorganization” in this prospectus
“Repurchase Mandate”	the general unconditional mandate given to our Directors relating to the repurchase of Shares, as further described in “Statutory and General Information — A. Further Information about our Group — 6. Share Repurchase Mandate” in Appendix V to this prospectus



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## DEFINITIONS

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“Ruian Raily”	Ruian Raily Medical Beauty Hospital Co., Ltd. (瑞安瑞麗醫療美容醫院有限公司), a company established under the laws of the PRC with limited liability on 18 March 2013 and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization
“Ruide BVI”	Ruide Consultation Limited (瑞德諮詢管理有限公司), a BVI business company incorporated under the laws of BVI with limited liability on 24 November 2017, which is directly wholly owned by Mr. Fu, and one of our Controlling Shareholders
“SAFE”	the State Administration of Foreign Exchange of the PRC
“SCNPC”	The Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Shanghai Donghua”	Shanghai Donghua Health Management Partnership (Limited Liability Partnership) (上海東燿健康管理合夥企業(有限合夥)), a limited liability partnership established under the laws of the PRC on 15 October 2018, which is one of the Pre-IPO Investors
“Shanghai Paibo”	Shanghai Paibo Management Consultancy Partnership (Limited Liability Partnership) (上海湃昂管理諮詢合夥企業(有限合夥)), a limited liability partnership established under the laws of the PRC on 2 August 2018, which is one of the Pre-IPO Investors
“Share(s)”	the ordinary share(s) of nominal value of US\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by our Shareholders on 4 December 2020, the principal terms of which are summarised in the section headed “Statutory and General Information — D. Other information — 1. Share Option Scheme” in Appendix V to this prospectus

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## DEFINITIONS

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“Shenzhen Ruiquan”	Shenzhen Ruiquan Management Consulting Co., Ltd. (深圳瑞泉管理諮詢有限公司), a company established under the laws of the PRC with limited liability (Taiwan, Hong Kong or Macau legal person sole investment) on 29 August 2019, and an indirect wholly owned subsidiary of our Company upon completion of the Reorganization
“Stabilising Manager”	Innovax Securities
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement which may be entered into on or about the Price Determination Date between Innovax Securities and Ruide BVI pursuant to which Ruide BVI will agree to lend up to 51,375,000 Shares to Innovax Securities on the terms set forth therein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Success Concept”	Success Concept Global Limited, a BVI business company incorporated under the laws of BVI with limited liability on 10 December 2018, which is one of the Pre-IPO Investors
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended 31 December 2019 and the six months ended 30 June 2020
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.”, “US”, or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US dollars” or “US\$” or “USD”	United States dollars, the lawful currency of the United States

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## DEFINITIONS

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“VIE Entities” or “VIE Entity”	the entities that we control certain percentage of their shareholding through the Contractual Arrangements which comprises of Raily Tiange, Hangzhou Raily and Ruian Raily
“WHITE Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s/applicants’ own name(s)
“Wuhu Raily”	Wuhu Raily Medical Beauty Clinic Co., Ltd. (蕪湖瑞麗醫療美容門診部有限公司), a company established under the laws of the PRC with limited liability on 3 July 2015 and an indirect non-wholly owned subsidiary of our Company upon completion of the Reorganization
“YELLOW Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“Youxin Management”	Youxin Management Co., Limited, a BVI business company incorporated under the laws of BVI with limited liability on 18 July 2018, which is one of the Pre-IPO Investors
“%”	per cent

*Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.*

*The English names of the PRC entities mentioned in this prospectus are translations of their Chinese names. If there is any inconsistency, the Chinese names shall prevail.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown in totals in certain tables may not be an arithmetic aggregation of the figures which precede them.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanation of certain technical terms used in this prospectus in connection with our Company and our business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.*

“aesthetic surgical procedures”	surgical procedures concerned with the restoration, reconstruction, correction or improvement in the shape and appearance of the face or body, which may be cosmetic or reconstructive in nature
“BOTOX®”	a brand of botulinum toxin type A manufactured and marketed by Allergan
“botulinum toxin type A”	a natural protein produced by the bacterium <i>clostridium botulinum</i> . Injection of botulinum toxin type A is intended to result in less wrinkling of the skin in the areas treated by blocking the signals from nerves to muscles, causing weaker muscle contraction or complete cessation of muscle movement
“BTXA”	a brand of botulinum toxin type A manufactured and marketed by China National Biotech Group
“CAPA”	Chinese Association of Plastics and Aesthetics (中國整形美容協會)
“Chuzhen Facial Implant”	e-PTFE Facial Implant 初真, a brand of e-PTFE manufactured by ICM Co. LTD
“collagen”	a natural protein that provides structural support in the body including skin
“contouring”	application of aesthetic medical procedures in the attempt to improve the shape of an individual’s face or body
“e-PTFE”	expanded polytetrafluoroethylene, a subcutaneous implant for shaping, which is mainly used for augmentation of nasal dorsum and chin
“GFA”	gross floor area
“hyaluronic acid”	a stabilised viscous glycosaminoglycan of non-animal origin, which is injected with the intention to achieve certain aesthetic effects such as filling in facial lines and creases, correction of contour defects or depressions, restoration of volume loss from aging and the plumping of lips or cheeks
“intense pulsed light”	a technology making use of intense pulses of non-coherent light distributed over a range of wavelengths to improve the appearance and texture of the skin and correct skin blemishes

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## GLOSSARY OF TECHNICAL TERMS

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“laser”	Light Amplification by Stimulated Emission of Radiation, a technology used to treat various skin problems
“liposuction” or “lipoplasty”	removing excess fat tissue from a specific part of body through suction assisted by lipectomy or plasma or laser which, at the request of clients, may or may not be further processed and then injected into other specific parts of the body
“minimally-invasive procedure”	a medical procedure which produces relatively minor damage of body tissue and does not involve surgical incisions into the skin with operative procedure and closure with sutures
“physician(s)”	person(s) who has/have obtained practicing physician qualification (執業醫師資格) for their medical profession in accordance with the Law on Medical Practitioners of the PRC
“radiofrequency”	a technology used in a device, with the oscillation of alternating currents at a frequency of around 300 kHz to 300 GHz
“rhinoplasty”	an aesthetic medical procedure for 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
“sq.m.”	square metres
“ZAPA”	Zhejiang Association of Plastic and Aesthetics (浙江省整形美容行業協會)

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## FORWARD-LOOKING STATEMENTS

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In this prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

This prospectus contains forward-looking statements that state our intentions, beliefs, expectations or predictions for the future that are, by their nature, subject to significant known or unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our ability to implement such strategies;
- our operations and business prospects, including development plans for our existing and/or new businesses;
- future developments and competitive environment in the PRC and the markets in which we operate;
- the regulatory environment and industry outlook in general for the industries discussed herein;
- general political, economic, legal and social conditions in the PRC and the markets in which we operate;
- our business expansion plans;
- our ability to control or reduce cost;
- our financial condition and performance;
- macroeconomic measures taken by the PRC government to manage economic growth;
- factors that are described in the section headed “Risk Factors” in this prospectus; and
- other factors beyond our control.



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## FORWARD-LOOKING STATEMENTS

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The words “aim”, “anticipate”, “believe”, “consider”, “could”, “predict”, “estimate”, “potential”, “continue”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those suggested by the forward-looking statements. Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our business, financial condition and results of operations may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. These forward-looking statements should be considered in light of various important factors, including those set out in the section headed “Risk Factors” in this prospectus. Moreover, the inclusion of forward looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. Our Directors confirm that these forward-looking statements are made after due and careful consideration and on bases and assumptions that are fair and reasonable. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*Prospective investors should consider carefully all the information set out in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Global Offering.*

*The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial condition and prospects of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.*

*This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**We do not maintain medical liability insurance and may be subject to liability claims in respect of medical malpractices that may occur in our aesthetic medical institutions conducted by our physicians and medical staff, which could lead to material financial and reputational losses to our Group**

The safety and quality of our aesthetic medical services are vital to the success of our business in the industry which depends significantly on the performance of our physicians and medical staff, and the effectiveness of our safety control system. There can be no assurance that in delivering aesthetic medical services to our clients, our physicians and medical staff would not be involved in any medical incidents, accidents, negligence or other malpractices; or that our safety control system will continue to be effective. Complaints, claims and legal actions may be brought by dissatisfied clients against the relevant physicians and medical staff and/or our aesthetic medical institutions. We are thus exposed to potential liabilities inherent to the provision of aesthetic medical services to our clients.

During the Track Record Period and up to the Latest Practicable Date, we did not maintain medical liability insurance for our aesthetic medical institutions or our physicians (including employee physicians and contract physicians) and medical staff. In addition, to the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, the physicians and medical staff of our Group did not take out medical liability insurance themselves. Although our physicians (including employee physicians and contract physicians) have, under their respective service contract, agreed to be responsible to compensate our Group's claims for losses arisen from their gross negligence, willful misconduct or other dereliction of duties, there is no assurance that the relevant physicians have sufficient financial means to compensate our Group. Therefore, if we suffer any losses or damages from medical liability claims, there is no insurance to cover such losses or damages, and as a result of which our business operations, financial condition and results of operations may be materially and adversely affected.

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**Our brand, market reputation and consumer perception contribute significantly to our continued success and growth. Any failure to maintain, or any damage to, our brand, market reputation and/or consumer perception could materially and adversely affect our results of operations and prospects**

We are committed to establish and maintain the market recognition of our brand. Over the years, our brand development has met with some success. For details, please refer to the section headed “Business — Awards and Recognitions” in this prospectus. We believe our success and continued growth depend substantially on our brand, market reputation and consumer perception. If we fail to maintain and enhance our brand image, or if there is any incident that damages consumers’ trust in the quality of our services, this could materially and adversely affect our brand, market reputation and consumer perception, thereby weakening their affinity to our brand and decreasing their demand for our services. Any negative publicity in relation to our services and products may, regardless of merit, damage our brand image and reputation in the industry.

In addition, our Group has always been using “瑞麗” or “瑞麗整形” (the “**Trade Name**”) together with our registered trademark “Raily” for our business operations. We were not successful in registering the Trade Name as a trademark in the PRC, as “瑞麗” is the name of a city in Yunnan Province, the PRC. To the best of our Directors’ knowledge and belief, and with reasonable enquiry, there is no registered trademark in our Trade Name in the category of aesthetic medical services and thus we believe we are not likely to infringe third parties’ registered trademark. However, if our competitors somehow successfully register the Trade Name as a registered trademark under the category of aesthetic medical services in the PRC, we may be unable to rely on the Trade Name and may even constitute passing off infringement, which may materially and adversely affect our business, results of operations and prospects.

We have registered and incorporated our aesthetic medical institutions in Xiacheng District and Xihu District of Hangzhou City, Wuhu City and Ruian City (county-level city) using their respective company names, all of which contain the Trade Name. According to relevant PRC laws and regulations, the company names of our aesthetic medical institutions are protected in the place of business registration of relevant aesthetic medical institutions and that within the place of business registration, our Group may exclude competitors from registering aesthetic medical institutions with company name containing our Trade Name. However, if we expand into regions outside of these places of business registration, and that there are existing competitors operating aesthetic medical services business under the Trade Name, we may be unable to register and incorporate under the Trade Name which may materially and adversely affect our business, financial conditions and results of operations.

We believe our success in the said regions are partly attributable to our clients’ recognition of the Trade Name and that our continued success will depend largely on our ability to protect and enhance the value of the Trade Name. Any deterioration in the reputation relating to the Trade Name could have a material and adverse effect on our sales, profitability and implementation of growth strategy. Furthermore, if any other aesthetic medical institution, registered in places other than the places of registration of our aesthetic

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medical institutions using the Trade Name, involves in any dispute, litigation or scandal, our clients may be confused and think that such institution is our affiliate, in which such confusion may cause adverse impact on our brand image and reputation materially.

**We rely on the performance of our physicians and staff. Our physicians and staff may be subject to complaints, investigations, claims or legal proceedings relating to alleged malpractice in the services, which could harm our reputation, brand image and results of operations**

Our physicians' and medical staff's treatment performance, communication and relationship with our clients are deemed to be vital to our business, particularly due to their position as the front-line staff which have high degree of interactions with our clients. Our services are provided to the clients based on our physicians' and other staff's proper decisions after their consultation with the clients. Any miscommunications between our physicians and staff on one hand; and the clients on the other hand, and/or incorrect decisions on the part of our physicians and staff may result in undesirable or unexpected outcomes, including complications, unexpected side effects, injuries and even death in extreme circumstances. Complaints, claims and legal actions may be brought by dissatisfied clients against the relevant physicians and staff. As the relevant services are provided in our aesthetic medical institutions, our Group is likely to be named as one of the defendants and may be subject to claims for professional misconduct or negligence arising from the acts, conducts or omissions of our physicians and staff.

Furthermore, our physicians and staff represent our Group's image and reputation. As such, the unsatisfied performance of treatment and operation of equipment by our physicians and staff could affect our reputation and we may lose existing clients and be unable to attract new clients or both, which could decrease our sales and may be materially and adversely affect our business, results of operations and financial conditions. During the Track Record Period, our medical affairs department handled 138 complaints from our clients, 109 of which resulted in monetary refund and/or payment of settlement sum. For more details, please refer to the section headed "Business — Client Complaints Management" in this prospectus. Claims or legal proceedings against us, our physicians or staff may, whether successful or not, attract negative publicity as the clients might share their experiences and opinions with other people and sometimes the settlements are through third party mediators such as medical dispute mediation committee and police officers, which will cause third party's awareness of such disputes. If there is any litigation or other legal proceeding against us, even though it is of a minor amount or based on a weak basis, such legal proceedings in an open court and the publication of medical dispute details may adversely affect our goodwill and general public's perception of our services and professionalism. Our business operations may also be materially and adversely affected as substantial time and resources may be required to deal with and defend such claims or proceedings.

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### **Failure to manage our clients' expectations may lead to complaints and legal claims by our clients**

Most treatments we offer have the objective of improving our clients' physical appearance. Our clients have varying demands on the improvement of their physical appearance, and would have different expectations of the magnitude of improvement that may result from our services. Therefore, sufficient communications to precisely acknowledge the clients' expectations and managing the same are also crucial to our business. We rely on our physicians and staff to engage in detailed discussion to identify our clients' demands while discovering and managing their expectations. However, there is no guarantee that some of our clients may still find that the results are dissatisfying. If we fail to manage our clients' expectations of the consequences of our treatment properly, a discontented client may request refunds, complain on the Internet or media, or to his/her peers, or file legal claim against us. Such actions from a discontented client may materially and adversely affect our brand image and cause deterioration in the level of trust among our clients and potential clients in our services and products, thereby resulting in reduced sales and potential loss of clients.

### **We may be unable to retain our existing physicians or attract suitable physicians to join our Group**

Our future success depends on our ability to retain, attract and motivate a sufficient number of qualified and experienced physicians, which is necessary to meet the demands of the services at our existing medical institutions and our future expansion. The number of qualified physicians with the necessary experience and qualifications that attain our Group's requirements in the market is limited in the near term, so the competition for these personnel is intense. Our ability to provide our services is reliant on the services of these professionals. The ability to attract and retain them is dependent on several factors such as our reputation, financial remuneration and job satisfaction. To compete with the other aesthetic medical service providers for these personnel, we may need to offer more competitive terms, such as higher fees and other rewards, which would increase our costs of operation. We cannot guarantee that we will win the competition for these qualified and experienced physicians. We may also be subject to the constant risks that our competitors will poach our experienced physicians with certain attractive incentives. Failure to retain, attract or motivate qualified and experienced physicians could adversely affect the operations of our aesthetic medical institutions, and any material increases in the turnover rates of our physicians could also have a material adverse effect on our business, results of operation and financial results and prospects.

### **The recent outbreak of the contagious COVID-19 may have a material adverse effect on our business, results of operation, financial condition and prospects**

The recent outbreak of COVID-19 in 2020 has endangered the health of many people around the world and significantly disrupted travel and economy. In light of the pandemic brought by COVID-19, local administrative authorities in the PRC imposed controls and restrictions which include extension of the Chinese New Year Holiday in February 2020 and temporary suspension of work in various provinces and cities. Our aesthetic medical

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institutions are located in Hangzhou City and Ruian City in Zhejiang Province and Wuhu City in Anhui Province, which are areas affected by the outbreak of COVID-19. In compliance with relevant public announcements and notices issued by governmental authorities to contain the outbreak of COVID-19, we had temporarily suspended all services of our aesthetic medical institutions since 1 February 2020 and with the permission of relevant governmental authorities, the operation of Hangzhou Raily, Ruian Raily, Raily Tiange and Wuhu Raily, have been partially resumed on 3 March 2020, 5 March 2020, 1 March 2020 and 21 March 2020, respectively according to our resumption plan of operation which allow our staff to resume duties in phases. On 10 April 2020, we had resumed to provide all types of aesthetic medical services in all our aesthetic medical institutions. Due to such temporary suspension of our operations, our revenue decreased significantly by approximately RMB33.4 million or 36.3%, from approximately RMB92.1 million for the six months ended 30 June 2019 to approximately RMB58.7 million for the six months ended 30 June 2020.

Any outbreak of COVID-19 and the related governmental control measures to contain it, including suspension of work order or restriction of residents' movements, would restrict travelling of goods and people and thus restricting the flow of clients, supplies and staff to and from our aesthetical medical institutions, which in turn adversely affected our business operation. In addition, if our staff or clients who visited our aesthetic medical institutions are infected with COVID-19, quarantines or temporary closures of aesthetic medical institutions would be required. In such event(s), our business and operation would be interrupted and our reputation and client's confidence would be materially adversely affected.

Ongoing concerns regarding the outbreak of COVID-19, particularly its effect on travel, could negatively impact the aesthetic medical services industry in the PRC as well as the overall economy of China and worldwide. Our clients' willingness in visiting our aesthetic medical institutions and the general consumer spending sentiment may be deterred by the outbreak of the COVID-19 pandemic. The business operations of some of our suppliers or our chain of supplies, or the logistic of our supply chain may also be adversely affected by the outbreak of COVID-19 and the related governmental control measures in different degrees, which in turn, adversely affect our business operation. Our Directors expect that, subject to the development of COVID-19, such pandemic would adversely affect the business, results of operations and financial position of our Group to different extent, and if the pandemic continues for a prolonged period of time, the business, results of operations, financial condition and prospects of our Group may be materially and adversely affected. In addition, to the extent that the COVID-19 pandemic may adversely affect our business and financial results, it may also have the effect of heightening many other risks described in this section, such as recording net current liabilities, recording losses in our investments in financial investment products and adversely affect our recognized goodwill in connection with acquisitions. For further details regarding the impact and potential impact of COVID-19 on our Group, please refer to the section headed "Business — Impact of Outbreak of COVID-19 on our Operation in the PRC" in this prospectus.



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**Our revenue has historically been dependent on, and will remain heavily dependent on, our operations in the cities where our aesthetic medical institutions locate, namely Hangzhou City, Ruian City and Wuhu City in the PRC. As such, we are especially sensitive to the local conditions and changes in these cities, the surrounding regions and the PRC in general, such as, with respect to their economy, laws and regulations and occurrence of any natural disasters, acts of God and pandemics**

During the Track Record Period, we derived most of our revenue from our aesthetic medical services delivered through our aesthetic medical institutions located in Hangzhou City and Ruian City in Zhejiang Province, and Wuhu City in Anhui Province, in the PRC. Going forward, we expect that a large part of our revenue will remain dependent on our operations in these cities and provinces in the PRC where our aesthetic medical institutions locate. We are therefore highly sensitive to the social, regulatory, economic, environmental and competitive conditions as well as the healthcare industry landscape in these cities and provinces in the PRC. In the event that the average spending power of the population in these regions decreases or the economic growth in these regions slow down, demand for aesthetic medical services may substantially decrease and our results of operation and profitability may be adversely affected. Furthermore, significant changes in the laws and regulations governing the healthcare industry in Zhejiang Province and Anhui Province, such as those in relation to the medical professional licensing system, qualification and compliance requirements for medical institutions, may have a material effect on our business operations.

In addition, our business is also subject to the general social conditions in the regions where we operate and in the PRC in general. Any occurrence of force majeure events, natural disasters or outbreaks of pandemics, including those caused by avian influenza, swine influenza, severe acute respiratory syndrome, SARS, Middle East respiratory syndrome coronavirus, MERS-CoV or the COVID-19 in the regions where we operate or in the PRC in general, which are beyond our control, depending on their scale, may cause different degree of damages to the economy, social conditions, infrastructure and livelihood of the people of the regions we operate or in China in general.

An outbreak of any contagious diseases, and other adverse public health developments in the PRC, depending on their scale, may cause different degrees of damage to the national and local economies in China and in turn, inhibit the business activities in the areas affected and may materially and adversely affect our business operations. Such outbreak and the related governmental control measures to contain the outbreak could include restrictions on our aesthetic medical institutions to provide aesthetic medical services, as well as causing temporary closure of our aesthetic medical institutions. Such closures or service restrictions would severely disrupt our operations and adversely affect our financial condition and results of operations. These events may also restrict clients from visiting our aesthetic medical institutions and/or generally reduce consumer spending willingness and clients' demands for our service as they may not want to visit any medical institutions at all; adversely affect the business operations of our suppliers or our chain of supplies, or the logistic of our supply chain; and limiting the logistic of our staff, which may result in material disruptions to our business operation, and materially and adversely affect our results of operations and financial position.

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**We have recognized goodwill in connection with acquisitions and may recognize goodwill in connection with acquisitions in the future. If we determine that our goodwill has become impaired, it could adversely affect our results of operations and financial position**

Our goodwill amounted to approximately RMB20.6 million as at 31 December 2017, 2018 and 2019 and RMB20.2 million as at 30 June 2020, in connection with certain of our subsidiaries, namely, Raily Tiange, Hangzhou Raily, Wuhu Raily and Guangzhou Yingjieshi. Goodwill was initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized 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. The purchase prices were determined after arm's-length negotiations. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Our Group performs its recurring impairment test of goodwill at least on an annual basis. We did not recognize any impairment loss for the three years ended 31 December 2019 and recognized impairment loss of approximately RMB0.4 million for the six months ended 30 June 2020.

Our estimates of the projected cash flows from the relevant operating segments may be susceptible to downward revision as a result of factors adversely affecting our business, or under circumstances where we fail to sustain the growth we have estimated. If we were required to recognize impairment charges, they could substantially affect our reported earnings in the periods when recognized. In addition, impairment charges could negatively affect our financial ratios, limit our ability to obtain financing and adversely affect our financial position.

**Our staff maybe incentivized to adopt inappropriate and excessive sales practices in advising clients to purchase unnecessary or unsuitable aesthetic medical procedures**

The remuneration package of our employees includes basic salary, allowance and bonus. In particular, our physicians, medical staff and client service personnel may be remunerated with bonus that is assessed mainly based on their performance and therefore the sales made by them. Therefore our staff may be incentivized to adopt inappropriate and excessive sales practices, which may involve advising clients to purchase unnecessary or unsuitable or inadequate aesthetic medical procedures, in order to boost their sales. Although we were not involved in any litigation or legal proceedings in relation to inappropriate or excessive sales practices during the Track Record Period and up to the Latest Practicable Date, any incidents of inappropriate and excessive sales practices which lead to unnecessary or inadequate or unsuitable aesthetic medical procedures sold to our clients may results in complaints, claims and legal actions to be brought by dissatisfied clients. Such dissatisfied clients may request refunds, complain on the Internet or media, or to his/her peers, or file legal claim against us, where such actions may materially and adversely affect our market reputation and consumer perception, thereby weakening their affinity to our brand, causing deterioration in the level of trust among our clients and potential clients in our services and resulting in reduced sales and potential loss of clients. In such cases, substantial time and resources may be required to recover our market reputation and clients demand for our services; and our business operations, financial

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conditions and prospects may be materially and adversely affected. In addition, unscrupulous sales practices are regulated and restricted by PRC laws and regulations, the violations of which would subject us to penalties and/or other legal consequences. We therefore incur on-going compliance costs and face potential penalties for non-compliance. For more details of the laws and regulations, please refer to the section headed “Regulatory Overview — Policy Regarding Anti-corruption and Anti-commercial Bribery” in this prospectus. Although during the Track Record Period and up to the Latest Practicable Date, we were not subject to any penalties nor found by relevant government authorities to be in violation of relevant laws and regulations in the PRC in relation to unscrupulous sales practices, any changes in the existing laws and regulations, or any changes of interpretation thereof, or any promulgation of new laws and regulations in the PRC in relation to unscrupulous sales practices could require us to incur additional compliance costs, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences. We have established a series of control measures in order to avoid unscrupulous sales practices, the details of which are set out in the section headed “Business — Environmental, Social and Corporate Governance” in this prospectus. If we fail to adjust our control measures in a timely manner in response to changes in the existing laws, regulations or rules; or if we are found to be non-compliant with any of these laws, regulations or rules, we may face penalties, which could adversely affect our business, financial condition, results of operations and prospects.

**We rely heavily on our promotions, advertisements and online marketing activities to promote our brand and services, which are heavily and strictly regulated in the PRC, susceptible to anonymous attack and irresponsible feedbacks**

We rely heavily on our promotions, advertisements and online marketing activities to promote our brand and services and in particular, we made substantial efforts in promotion and marketing through the Internet platforms. Medical advertising and promotions are heavily and strictly regulated in the PRC. We therefore incur on-going compliance costs and face potential penalties for non-compliance. For more details of the laws and regulations on medical advertising in the PRC, please refer to the section headed “Regulatory Overview — Regulations on Medical Advertising in the PRC” in this prospectus. During the Track Record Period, some of our aesthetic medical institutions were fined for publishing certain content of medical advertisement in violation of the PRC Advertisement Law (中華人民共和國廣告法) and/or Medical Advertising Management Measures (醫療廣告管理辦法). Please refer to the section headed “Business — Legal Proceedings and Compliance — Non-compliance incidents — 1. Medical advertisement” in this prospectus for more details. In addition, any changes in the existing laws and regulations, or any changes of interpretation thereof, or any promulgation of new laws and regulations in the PRC in relation to medical advertising could require us to obtain additional approvals or permits for our promotions and advertisements, or incur additional compliance costs, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences. If we fail to adjust promotions, advertising and marketing strategies and policies in a timely manner in response to changes in the existing laws, regulations or rules; or if we are found to be non-compliant with any of these laws, regulations or rules, we may face penalties, which could adversely affect our business, financial condition, results of operations and prospects.

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While these Internet platforms allow us to promote and market our businesses more accurately to the target consumers, the Internet itself also allows anyone to post negative comments on us without our knowledge. In rare cases, we would not be able to confirm whether the person posting negative comments or providing negative story on the media was really our client. While we made every attempt to make sure that we respond to any negative feedback to resolve the discontent, the Internet itself makes it impossible to resolve every discontent. As a result, potential clients may be affected by bad reviews or feedbacks on the Internet, which could adversely affect our brand image and reputation, business, results of operations, financial condition and prospects.

**Any inability to stay informed of the market trends or latest technological advancement in the aesthetic medical service industry may materially and adversely affect our results of operation**

We operate in an industry with rapidly changing consumer wants and preferences which challenge us to continuously assess and stay informed of the latest developments and trends in the aesthetic medical service industry and respond to the changing requests and preferences of our clients. In order to keep up with the latest developments and trends in the aesthetic medical service industry and respond to the changing requests and preference of our clients, we need to (i) upgrade our existing aesthetic medical service equipment and products and invest in new aesthetic medical service equipment and products from time to time; (ii) diversify the services we provided and source new treatment products; and (iii) refine or change our promotion, advertising and marketing strategies and policies. For the three years ended 31 December 2019 and the six months ended 30 June 2020, we had spent approximately RMB2.2 million, RMB8.8 million, RMB6.7 million and RMB1.5 million, respectively, to purchase machinery equipment in order to replace and upgrade existing aesthetic medical service equipment and expand service capacity; while our promotion and marketing expenses amounted to approximately RMB15.1 million, RMB22.7 million, RMB23.3 million and RMB6.9 million for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively.

If we fail to anticipate and adjust ourselves based on the market trends, or fail to introduce latest technologies in the aesthetic medical service industry to our aesthetic medical institutions, we may not be able to compete with our competitors in satisfying clients' needs and expectations and the demand for our services may decline thereunder. Also, if we fail to adapt and change our promotion, advertising and marketing strategies and policies according to the changing market trends, we may be unable to capture potential clients and thus resulting in reduced sales and potential loss of clients. Furthermore, if our competitors are more apt in responding to shifts in client preferences or more responsive to emerging technology or changing marketing preference in the industry, our aesthetic medical services may become less competitive. As a result, we may lose our existing clients and be unable to attract new clients, which could have a material adverse impact on our business performance, results of operations, financial condition and prospects. We cannot guarantee that we will be able to anticipate or adapt to the market trends in relation to the services we offered or the promotion, advertising and marketing strategies and policies we adopted, or latest technological developments in the industry, or that if we do, there is no assurance that we can recover the expenditure associated with the purchase of new aesthetic medical service equipment or upgrade of the existing aesthetic

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medical service equipment. If any of the abovementioned circumstances occur, our business performance, results of operations, financial condition and prospects may be materially and adversely affected.

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

While we have obtained property insurance to cover properties damage that are generally associated with our business operations and public liability insurance to cover third party bodily injury in our premises, the insured amount may not be sufficient to cover all damages and/or losses, or to restore our operations when insured event occurs. In addition, there is no assurance that our existing insurance coverage will be able to cover all types of risks involved in our business operations, or be sufficient to cover the full extent of losses, damages or liabilities arising therefrom. Further, there are certain types of risks, such as acts of god, for which insurance coverage is generally not available on commercially acceptable terms or at all. If we suffer any losses, damages or liabilities in the course of our business operations, we will have to bear all of such losses, damages or liabilities. Even if we have maintained insurance coverage for a specific area of business operations, there is no assurance that we will be able to successfully claim for compensation under the relevant insurance policy or the claim will be fully insured within the maximum amount of our insurance coverage. In such circumstances, our business operations, financial condition and results of operations may be materially and adversely affected.

**Most of our aesthetic medical services were offered in one-off session and failure of our Group to attract new clients or retain repeat clients for our aesthetic medical services could materially and adversely affect our business, results of operations, financial condition and prospects**

Except for service plans we offered where clients can enjoy multiple sessions of aesthetic medical services, our aesthetic medical services offered to clients were one-off nature. For the three years ended 31 December 2019 and the six months ended 30 June 2020, approximately 86.5%, 86.7%, 77.7% and 80.7% of our total revenue were derived from aesthetic medical services offered to clients in one-off session without service plans, respectively. Further, the aesthetic effect of most of our aesthetic surgical procedures performed may last indefinitely; while the aesthetic effect of aesthetic injection procedures last for a certain period of time, ranging from a few months to a year. There is no guarantee that our clients will visit our aesthetic medical institutions after their treatment with us. We also cannot guarantee that we will continue to attract new clients for our aesthetic medical services. For the three years ended 31 December 2019 and the six months ended 30 June 2020, we attracted 14,059, 25,230, 34,106 and 13,928 new clients, respectively; while our repeat clients contributed 51.9%, 47.2%, 51.2% and 55.3% of our total active clients for the same years, respectively. If for any reasons, including failure to keep up with changing requests and preferences of clients and potential clients and provision of services unsatisfactory to our clients, we may be unable to attract new clients or secure client for repeated visits for our aesthetic medical services. In the event that we are unable to maintain



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similar level of number of new clients and level of number of repeat clients, our business, results of operations, financial condition and prospects may be materially and adversely affected.

**Our expansion plans, particularly our plans to expand our business into various new geographic areas in the PRC, are subject to uncertainties and risks, and we may not be able to successfully manage our expanded operations**

We plan to pursue acquisition opportunities and/or open new aesthetic medical institutions at new markets such as Shanghai City and other cities at Zhejiang Province. Therefore our organization may become larger and more complex with our intended plans to expand into new geographic areas, through a combination of acquisitions and organic growth. The execution of our expansion plans is expected to require management attention and efforts and incur additional expenditures. Our ability to successfully expand into new markets depends on many factors, including our ability to:

- identify suitable geographic markets for the type of services we offer;
- identify local consumer preferences;
- address local market competition;
- negotiate acceptable lease terms, including desirable tenant allowances;
- hire, train and retain a growing workforce of physicians and medical staff;
- successfully integrate new aesthetic medical institutions into our existing control structure and operations, including our information technology systems; and
- secure financing or maintain sufficient capital to invest in new aesthetic medical institutions or making acquisitions.

In addition, to manage our growth and expansion, and to attain and maintain profitability, we will continue to place demands on our management, physicians and our administrative, operational and financial personnel and infrastructure. To accommodate our growth, we need to continue managing our relationships with our suppliers and clients. We cannot assure you that we will be able to implement our expansion plans or manage any future growth effectively and efficiently, and any failure to do so may adversely affect our ability to capitalize on new business opportunities, which in turn may have an adverse effect on our business and financial results.

**Opening of new aesthetic medical institutions could result in fluctuations in our short-term financial performance**

We consider opening new aesthetic medical institutions with our brand “Raily” in new markets when appropriate opportunities arise. Our operating results could be influenced by the timing of the opening of new aesthetic medical institutions and the number of new aesthetic medical institutions opened. New aesthetic medical institutions generally have



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lower income and higher operating costs during the initial stages of their operation. We also incur substantial expenses before opening new aesthetic medical institutions such as renovation costs, rental expenses and equipment costs. Based on our previous operating experience and current market condition (without taking into account the impact or potential impact of the occurrence of any natural disasters, acts of God or pandemics, including COVID-19), it generally takes approximately 21 months for a new aesthetic medical institution to breakeven and approximately 47 months to recover the initial investment. Accordingly, the number and timing of new aesthetic medical institution openings have, and may continue to have, an impact on our profitability. As a result, our results of operations may fluctuate from year to year. Therefore, period-to-period comparisons of our operating results during the Track Record Period may not be meaningful and you should not rely on them to predict the future performance of our operating results or the price of our Shares.

**Newly opened and acquired aesthetic medical institutions may not achieve normal operation as anticipated, which could adversely affect our business, results of operations, financial condition and prospects**

It typically requires a period of time for newly opened and acquired aesthetic medical institutions to achieve a utilization rate comparable to our existing aesthetic medical institutions, due to factors such as time needed to build client awareness in the local community and to integrate such aesthetic medical institution's operations into our existing infrastructure. In addition, the opening and acquisition of new aesthetic medical institutions involve regulatory approvals and reviews by various authorities in China, including health authorities. We may not be able to obtain all the required approvals, permits or licenses for opening and acquisitions of aesthetic medical institutions in a timely manner or at all. We may not be able to immediately utilize a newly opened or acquired aesthetic medical institution as anticipated due to our inability or material delay in obtaining the required approvals, permits or licenses and any substantial increase in costs to ramp up operations and utilization. In addition, the operating results generated at the newly opened and acquired aesthetic medical institutions may not be comparable to the operating results generated at any of our existing aesthetic medical institutions. Such newly established aesthetic medical institutions may even operate at a loss, which could adversely affect our operating results.

**Our legal right to lease certain properties could be challenged by property owners or other third parties**

We lease premises in various cities as our hospital premises and offices, to carry out our operations. As at the Latest Practicable Date, the landlord of the properties leased by Hangzhou Raily and Raily Beauty Consultation with an aggregate GFA of 3,544 sq.m. has not provided us the building ownership certificate. As advised by our PRC Legal Advisers, there is a risk that the landlord from whom we lease such property may not have the right to lease such properties to us; and as a result of that the relevant lease agreements may be deemed invalid or we may face challenges from property owners or other third parties to the lessor's rights. For details, please refer to the section headed "Business — Properties" in this prospectus. As at the Latest Practicable Date, we had not received any claims or notices or

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warning letters from the relevant governmental authorities or any third parties on the right to lease those properties by us. However, if any challenge from government authorities or third parties arises, our leases may be invalidated and our rights under these leases may be materially and adversely affected. In addition, if we are forced to relocate any affected premises, our operations will be severely disrupted or suspended. We may incur significant costs and time in securing alternative sites for relocation and relocating our operations to such alternative sites, and we may lose income in respect of the affected operations during the relocation period. Further, the establishment of aesthetic medical institutions at new location involves regulatory approvals and reviews by various authorities in China, including health authorities. For example, we need to submit relevant filing and application for change of address in respect of our business license, Medical Institution Practicing License, Licenses for Radiotherapy, License for Safe Radiation, Medical Institution Seal Card, Pollutant Discharge Permit and pass the relevant environmental assessment and examination and fire prevention inspection of the new premises for medical institution use by relevant PRC governmental authorities. We may not be able to obtain all the required approvals, permits or licenses for opening and acquisitions of aesthetic medical institutions in a timely manner or at all. All of these consequences could materially and adversely affect our business, financial condition and results of operations.

**If we fail to attract new clients cost-effectively, or at all, our business, results of operations, financial condition and prospects may be materially and adversely affected**

In order for us to grow our business, we must be able to attract new clients. In order to attract new clients, we may rely on referrals by existing clients and need to incur additional expenditures or make additional investment in our marketing and advertising efforts, which may be more costly and/or less effective or successful as we anticipate.

There is no assurance that we will be able to attract sufficient number of new clients to substantiate our continuous business development. If we fail to attract new clients, our business, results of operations, financial condition and prospects may be materially and adversely affected.

**Our business is subject to seasonality**

Our results of operations are exposed to seasonal fluctuations of demand for our services. In the high season, generally being the fourth quarter of each year, our revenue generally climb up to a higher point than average amount, while in the low season such as February (or during Chinese New Year holiday season), the revenue goes down. The seasonality of our business places increased strain on our operations. If in the high season we fail to stock or restock our supplies, or maintain sufficient manpower for popular procedures, we might fail to meet client demand and it could significantly affect our revenue and our future growth. If we overstock supplies before and in the low season, we may be required to make significant impairment provision to our supplies for certain products of short shelf life, which could reduce profitability. As such, our operating results have fluctuated and are expected to continue to vary from period to period and may not reflect our annual financial results.

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## RISK FACTORS

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### **We recorded net current liabilities as at 31 December 2017 and 2018**

Our Group recorded net current liabilities of approximately RMB22.5 million and RMB38.4 million as at 31 December 2017 and 2018, respectively. For more details, please refer to the section headed “Financial Information — Net Current Liabilities/Assets” in this prospectus. We cannot assure you that we will not record net current liabilities in the future. A net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of debt financing will primarily depend on our ability to generate adequate cash inflows from our operating activities. If we experience a shortage in cash flow generated from operations, our liquidity position may be materially and adversely affected, which, in turn, may adversely affect our results of operations and financial position.

### **We had net cash used in operating activities during the six months ended 30 June 2020**

For the six months ended 30 June 2020, our Group had net cash used in operating activities of approximately RMB9.2 million, as a result of the loss before tax of approximately RMB12.4 million due to the temporary suspension of our operation resulting from the COVID-19. Please refer to “Financial Information — Liquidity and Capital Resources — Net cash flows from/(used in) operating activities” in this prospectus for further information. Net cash flows used in operating activities requires us to obtain sufficient external financing to meet our financing needs and obligations. If we are unable to do so, we could be in default of our payment obligations and may not be able to expand our business. Thus, our business and financial positions, operating results, and prospects could be materially and adversely affected.

### **Clients’ credit risks and long trade receivables turnover days may adversely affect our results**

Our trade receivables amounted to approximately RMB4.4 million, RMB5.1 million, RMB8.3 million and RMB5.4 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, among which approximately RMB0.3 million, RMB2.5 million, RMB1.0 million and RMB0.6 million were past due. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our average trade receivables turnover days were approximately 11.9, 10.9, 13.3 and 21.3 days, respectively. Our trading terms with management consulting clients are mainly on credit. The credit period is generally 30 to 90 days for major clients. Longer trade receivables turnover days would mean that we have to bear additional financial burden to finance our increased working capital needs. In addition, we will also have cash flow problem if we are unable to secure external financing in time. We cannot assure you that our clients will pay us on time and that they will be able to fulfill their payment obligations. Should we experience any unexpected delay or difficulty in collections from our clients, our operating results and financial condition may be adversely affected.

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## RISK FACTORS

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### **We are uncertain about the recoverability of our deferred tax assets, which may affect our financial positions in the future**

We recorded deferred tax assets of RMB3.2 million, RMB5.1 million, RMB8.7 million and RMB10.0 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Deferred tax assets are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the relevant assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involve a number of assumptions relating to our operation and require a significant level of judgment exercised by our Directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

### **The performance and value of our investments in financial investment products and equity securities are subject to uncertainties and fluctuation**

We purchased financial investment products from commercial banks in the PRC in the years ended 31 December 2019 and 2020. As at 30 June 2020, the balance represented the financial investment products with the principal amount of approximately RMB16.3 million, denominated in RMB, and with expected yield rates ranging from 1.6% to 5.0% as at 30 June 2020 per annum. As at 30 June 2020, our debt investments at amortised cost of approximately RMB11.1 million represented the carrying amount of such structural debt investment products and our financial assets at fair value through profit or loss of approximately RMB5.4 million represented the carrying amount of financial investment products purchased from a commercial bank. The performance and the value of our investment in such products may fluctuate or decrease from time to time for reasons beyond our control, such as market interest rates, performance of the reference assets which is used to determine the return of our investments, changes to regulatory requirements or restrictions, general economic conditions, and risks associated with any specific country or currency. Those investments are also subject to the credit risk of the issuers and we may lose all or a substantial amount of our investments in the event that such issuer becomes insolvent or delays in making or fails to make any payments when due. Any decrease in value or underperformance of these financial assets may adversely affect our financial condition or business prospects.

Additionally, we acquire 10% equity interests in Jiumei Xinhe at a consideration of RMB6.0 million in December 2019. The unlisted equity investment in Jiumei Xinhe was designated at fair value through other comprehensive income as our Group considers these investments to be strategic in nature. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the balance of equity investments designated at fair value through other comprehensive income was nil, nil, approximately RMB6.0 million and RMB5.9 million, respectively. The price of these securities may fluctuate with, among others, changes in market conditions as well as the performance and business prospects of Jiumei Xinhe, all of which are beyond our control. Any decrease in fair value of the investment will result in fair value losses on financial assets at fair value through other comprehensive income, and may adversely affect our financial condition.

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## RISK FACTORS

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**We depend on the continued service of our senior management team and other key employees, and our business, financial condition and results of operations will suffer greatly if we lose their services**

We have been, and will continue to be, heavily dependent on the continued services of our senior management team and other key employees, some of whom have been with us since our inception. In particular, we rely on the expertise, experience and leadership of the Chairman, Mr. Fu, executive Director, Mr. Song Jianliang and the Chief Executive Officer, Mr. Yu. We also rely on a number of key members of our senior management team. We do not maintain key person insurance. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our key personnel, we may not be able to locate suitable or qualified replacements easily or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected. In addition, if any member of our senior management team or key employees joins a competitor or forms a competing business, we may lose know-how, clients and key professionals and staff. Each of our key employees including all physicians has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws.

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

In the PRC, restrictive covenants are enforceable only when the contractual terms restricting a contracting party's activities during or after the termination of his/her agreement are reasonable in all circumstances to protect the legitimate business interests of the other contracting party, i.e. our Group.

Despite there are non-competition undertakings contained in the employment agreements we have entered into with our employee physicians, there is no assurance that they will not, upon termination of their respective agreements with us, engage in business activities that compete, whether directly or indirectly, with our business for a certain period of time. In circumstances where our employee physicians engage in competing business activities, we cannot assure you that we will be able to successfully enforce such non-competition undertakings under the laws of the PRC. If our employee physicians engage in competing business activities and we are unable to enforce the relevant non-competition undertakings, our business, results of operations and financial condition may be materially and adversely affected.

**Any substantial increase in rent or non-renewal of lease agreements may affect our business operations and financial**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, our operating rental expense and depreciation of right-of-use assets amounted to approximately RMB5.3 million, RMB5.5 million, RMB6.0 million and RMB2.9 million, respectively. As all our aesthetic medical institutions and offices are currently situated at



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leased properties, we are particularly susceptible to fluctuations in the property rental market. Before the expiry of each of our leases, we have to negotiate the terms of renewal with our respective lessors. The term of the lease agreements for our aesthetic medical institutions under Hangzhou Raily, Raily Tiange, Wuhu Raily, and Ruian Raily will respectively expire in 2025, 2021, 2025 and 2024. There is no assurance that our existing leases would be renewed on similar or favourable terms, in particular with respect to the amount of rent and the term of the lease, or at all. Any substantial increase in the rent of our leased properties may increase our property rental and related expenses, which could materially and adversely affect our profitability. There is also no assurance that our existing leases will not be terminated early by the lessors before the expiry of the relevant term.

In the event that we are required to relocate our aesthetic medical institutions, there is no assurance that we will be able to identify comparable locations in a timely manner or at all, and that we will secure a lease on comparable terms. We may also incur substantial reinstatement, relocation and renovation costs. Further, the establishment of our aesthetic medical institutions at new location involves regulatory approvals and reviews by various PRC governmental authorities, including relevant filing and application for change of address in respect of business license, Medical Institution Practicing License, Licenses for Radiotherapy, License for Safe Radiation, Medical Institution Seal Card and Pollutant Discharge Permit; and completion of relevant environmental assessment and fire prevention inspection of the new premises by relevant PRC governmental authorities. As we only have four aesthetic medical institutions as at the Latest Practicable Date, any non-renewal of lease of either one of our aesthetic medical institutions may have a material adverse effect on our business, results of operations and financial condition.

### **There is no long term agreement between our Group and our suppliers**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, our cost of supplies consumed amounted to RMB19.4 million, RMB34.3 million, RMB47.3 million and RMB19.2 million respectively, representing 50.5%, 51.6%, 52.5% and 55.8% of our total cost of sales for the same periods respectively. Similar to the industry practice, we have not entered, and will not enter into any long-term supply agreement with our suppliers and we cannot assure you that our suppliers will continue to supply to us on commercially reasonable terms. It is also possible that our suppliers may early terminate or refuse to renew the supply agreements with us. If any of our suppliers do not supply our ordered quantities of supplies in a timely manner, we may need to acquire replacements for such supplies from alternate suppliers. We cannot assure you that we will be able to do so in a timely manner and/or at commercially reasonable terms. Any disruption in supply of implants, pharmaceuticals and other medical consumables, or any significant increase of procurement price thereof may adversely affect the capacities of our aesthetic medical institutions in providing services, which may in turn adversely affect our business, results of operations, financial condition and prospects. Moreover, if the prices of supplies increase significantly, we would not be able to pass on all such increased costs to our clients by simply raising the prices of our services. Any substantial fluctuation in market prices of the supplies required in our services may significantly increase our costs, resulting in reducing, suspending or ceasing provision of certain types of services, thereby reducing our sales and profit.



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Furthermore, similar to the industry practice, we procure BOTOX<sup>®</sup>, the only imported brand of botulinum toxin type A in the PRC, from the only available supplier in Zhejiang Province. We cannot assure you that the purchase price would not be increased significantly. Due to BOTOX<sup>®</sup>'s sustained reputation among consumers, it cannot be entirely replaced by local brand botulinum toxin type A product. Since the currently effective sales agreement for BOTOX<sup>®</sup> is only one-year term and has no auto-renewal clause, in the event that we are not able to source BOTOX<sup>®</sup> from the supplier on commercially reasonable terms, or at all, our business, financial condition and results of operation will be adversely affected.

**We maintain limited control over the quality of our aesthetic medical service equipment, pharmaceuticals and medical consumables and may be subject to product liability claims**

Even though we are selective in choosing our suppliers, we cannot assure you that the aesthetic medical service equipment, pharmaceuticals and medical consumables we procure from our suppliers during the course of our business operations are safe, free of defects and meeting the relevant quality standards. We depend on our suppliers' quality control procedures. In the event of any quality issues, we could be subject to complaints and product liability claims by our clients. We may not be able to seek indemnification from our suppliers and if we engage in legal proceedings against our suppliers, such proceedings may be time consuming and costly regardless of the outcomes. Any quality issues on our aesthetic medical service equipment, pharmaceuticals and medical consumables may have a material adverse effect on our reputation, brand image, financial performance and lead to negative publicity.

Furthermore, we may also need to find alternative suppliers and suitable replacement products, which may result in delay in the provision of our services. If we are unable to find alternative suppliers or suitable replacement products in a timely manner, our business operations may be disrupted.

**We may be unable to protect our clients' information from leakage or improper use, which could expose our Group and our physicians and staff to claims, regulatory actions or litigations**

We acknowledge that our clients' personal information and privacy are particularly essential to aesthetic medical services, and our clients expect us to keep their information strictly confidential. Our physicians are required by the relevant professional code of conducts not to disclose any medical information of our client to any third party without the client's consent other than in certain special circumstances. We are also subject to, among others, regulations on personal information protection in the PRC which limits the use of personal information of our clients collected by us for such purposes for which they were collected or for a directly related purpose. In addition, we have implemented our owned policy to safeguard our clients' personal information. We believe our current usage of clients' medical information is in compliance with applicable laws and regulations governing the use of such information. However any change in relevant laws and regulations could impose more stringent data protection requirements and thus affect our ability to use medical data and may also incur additional costs and labours.

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In addition, we cannot guarantee that our confidentiality policies and measures can completely prevent our clients' information from leakage or unauthorized use. Our information technology systems could be breached through hacking activities. Medical records in our aesthetic medical institutions of our clients, if any, are kept manually. Personal information we maintain could be leaked due to any theft, misuse of personal information arising from misconduct or negligence. Any breach of our confidentiality obligations to our clients could expose our Group and/or our physicians and staff to potential liabilities, such as claims, regulatory actions or litigations, or disciplinary actions, which may have a material adverse effect on our brand image and reputation, business, results of operations, financial conditions and prospects.

**We may not be able to identify, capture or execute acquisition opportunities, which may materially and adversely affect our business, results of operations, financial conditions and prospects**

Organic development will have its limit when our business grows up to certain level so it is also necessary to expand our businesses, market shares and coverage by acquiring or investing into other aesthetic medical institutions. However it is possible that we may not be able to identify desirable target institutions, or negotiate commercially acceptable terms for acquisitions, or smoothly integrate any acquired businesses in the future. Even if we were able to identify desirable target institutions, such acquisitions can be difficult, time-consuming and costly to execute and integrate. Financially, we may not be able to secure necessary financing, whether in the form of debt or equity, for the acquisitions. Institutions that we acquire, or any physicians or staff thereof may have undisclosed, unknown or contingent liabilities, including liabilities for failure to comply with relevant laws, rules and regulations, and we could become liable for the past activities of the entities we acquire. We may not enforce the indemnifications from the sellers in such acquisition even there is such clauses in the acquisition documents.

In addition, future acquisitions and subsequent integration of newly acquired businesses into our own would require considerable efforts and attention from our management team, which could result in a diversion of resources from our existing business and in turn, may adversely affect our business operations. Finally, acquired businesses may not generate the financial results or synergies we anticipate.

**Any disruption, malfunction or breakdown of our business management system and network security may interrupt our business operations and materially and adversely affect our business**

Our business operations depend on the satisfactory performance, stability and reliability of our business management system and related software programmes, which are critical to our storage of client records and appointments, management of supplies as well as computation of operational and sales data. However, our business management system may experience disruption, malfunction, breakdown or other performance problems due to reasons such as (i) the licensor terminates the licence of the business management system to us; (ii) increasing pressure on our servers and network capacities as a result of growing client base and expanding operations; (iii) undetected programming errors, bugs, flaws, corrupted data or other defects; (iv) hacking or other attacks on our network infrastructure and system programmes; and (v) floods, fires, extreme temperatures, power

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loss, telecommunications failures, technical error, computer viruses or similar events. Any disruption, malfunction, breakdown or other performance problems of our business management system may significantly disrupt our business operations and reduce our work efficiency, which may have a negative impact on the quality of our services.

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

We also receive and maintain certain personal information about our clients when accepting credit cards for payment. If our network security is compromised and such information is stolen or obtained by unauthorised persons or used inappropriately, we may be subject to litigation or other proceedings brought by cardholders and the credit card issuing financial institutions. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our Group and our brands could also be negatively affected by these events, which could further adversely affect our business and results of operations.

**We may be unable to adequately protect our intellectual property rights and any infringement could materially and adversely affect our business**

Our intellectual property rights comprise our trademarks and domain names. Our trademarks are essential to the development of our brand image and reputation. As at the Latest Practicable Date, we owned five registered trademarks in the PRC. Please refer to the section headed “Statutory and General Information — B. Further Information about our Business — 2. Intellectual property rights” in Appendix V to this prospectus for details of our material intellectual property rights. We endeavour to protect our intellectual property rights but there is no assurance that the measures we have taken to protect our intellectual property rights, including registration of our trademarks, can adequately prevent unauthorised use by third parties or that we will not face any infringement of our intellectual property rights in the future. Infringement of our intellectual property rights may impair the brand image and discredit our reputation, which may have a material adverse effect on our business, results of operations, financial condition and prospects.

If we were to enforce our intellectual property rights through legal proceedings, such proceedings, regardless of the outcome, may be time-consuming and costly and divert our resources and management’s attention, which could materially and adversely affect our business, result of operations, financial condition and prospects.

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**Payment received for multiple sessions service plans may not be recognised as revenue and we may be subject to claims or complaints with respect to insufficient capacity to render aesthetic medical services for clients purchased multiple sessions service plans**

During the Track Record Period, we offered two types of service plans where clients are required to prepay for multiple sessions, namely fixed-session service plans and fixed-term service plans. Payments received for such fixed-session service plans and fixed-term service plans are recorded as contract liabilities in our consolidated statements of financial position at the time of payment and are subsequently recognised as revenue in our consolidated statements of profit or loss either at the time the procedure is delivered for our fixed-session service plans or over the service period of our fixed-term service plans on a straight-line basis. Subject to arrangement otherwise agreed between the parties, the Law of PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法) provides that if business operator cannot provide goods or services as agreed under prepaid arrangement, they shall perform as requested by the customer or refund the prepaid payment and bear the interests of prepaid payment and other necessary reasonable costs paid by the customer. According to our arrangement with clients, clients of fixed-session service plans may request for a full refund of the purchase price of the unused sessions for any causes; while clients of fixed-term service plans may request for refund of the purchase price of the service plan after deducting the aggregate original price of the procedures already delivered for any causes before the expiry of such plans. The amount of refund will be directly deducted from the contract liabilities recorded in our consolidated statements of financial position. For more details, please refer to the section headed “Business — our Client — Payment for our Aesthetic Medical Services” in this prospectus. We therefore cannot guarantee that all procedures purchased by clients through our multiple sessions service plans can be delivered or that the clients will not request for refund of the purchase price of fixed-term service plans before the expiry of such plans, which may result in not all contract liabilities recorded for multiple sessions services plans can be recognised as revenue. In addition, given that the indefinite duration of our fixed-session service plans offered to clients, we may not be able to maintain sufficient capacity to render aesthetic medical services to the clients who have purchased such plans which may lead to complaints and claims against us and adversely affect our image and reputation and, in turn, our business and results of operations.

**Our historical financial and operating results may not be indicative of our future performance**

You should not rely on our historical results to predict the future performance of the Shares. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our revenue amounted to approximately RMB112.9 million, RMB158.9 million, RMB191.2 million and RMB58.7 million, respectively, whereas the profit or loss for the period amounted to profit of approximately RMB17.4 million, RMB18.4 million, RMB10.3 million and loss of RMB11.8 million, respectively. The trend of our historical financial information is a mere analysis of our past performance and does not have any positive implication on and may not necessarily reflect our future financial performance. Our future financial results may fluctuate due to, among other things, the demand for aesthetic medical services and the general economic conditions in the PRC. Our short-term operating results may not be an indication of our long-term prospects either.

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In addition, our future growth and our ability to implement our business strategies will depend on, among other factors, the successful retention and recruitment of experienced management and other key personnel. There is no guarantee that we will be able to retain or hire such employees and personnel and the failure to do so may materially and adversely affect our business, results of operations, financial condition and prospects.

### **The preferential tax rate we enjoyed may not continue in the future**

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises (關於實施小微企業普惠性稅收減免政策的通知) and the Announcement of the State Administration of Taxation on Issues Concerning the Implementation of the Inclusive Income Tax Deduction and Exemption Policies for Small Low-Profit Enterprises (國家稅務總局關於實施小型微利企業普惠性所得稅減免政策有關問題的公告), Ningbo Zhuerli enjoyed a preferential tax rate of 10% as a small and micro enterprise. For more details about our income tax expense, please refer to the section headed “Financial Information — Principal Components of our Results of Operations — Income tax expense/credit” in this prospectus. We cannot assure you that we can continue to enjoy similar preferential tax treatment in the future. If any of such change, cancellation or discontinuation of tax policy occurs, the resulting increase in our tax liability may adversely affect our business, results of operations and financial condition.

### **The adoption of IFRS 16 affected our Group’s consolidated statements of financial position, consolidated statements of profit or loss and other comprehensive income and certain key ratios due to the operating lease arrangements**

As at the Latest Practicable Date, our Group’s leased properties include aesthetic medical institutions and offices. Under IFRS 16, which our Group has adopted since and throughout the entire Track Record Period, leases are recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by our Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Our Group’s current accounting policy for such leases is set out in note 2.4 of the Accountants’ Report in Appendix I to this prospectus. As at 30 June 2020 and 31 October 2020, our Group’s total lease liabilities amounted to approximately RMB23.9 million and RMB20.9 million (unaudited), respectively.

During the Track Record Period, our Group’s future operating lease commitments have been discounted and recognised as “lease liabilities” in the consolidated statements of financial position. IFRS 16 provides new provisions for the accounting treatment of leases and no longer allows lessees to recognise certain leases outside of the consolidated statement of financial position. Instead, for all leases with a term of more than 12 months, unless the underlying asset is of low value, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.



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The adoption of IFRS 16 affected virtually all commonly used financial ratios and performance metrics, such as total debt to equity ratio, gearing ratio, current ratio, quick ratio, interest coverage, return on assets, return on equity, EBIT, EBITDA, earnings per share, operating cash flows and cash flows from financing activities. The recognition of right-of-use assets and lease liabilities expanded our Group's consolidated statements of financial position and materially affected its related financial ratios, resulting in an increase in gearing ratio and a decrease in net current assets, current ratio and quick ratio. In the consolidated statements of profit or loss and other comprehensive income, the adoption of IFRS 16 gave rise to recognition of depreciation of the right-of-use assets, instead of recognition of lease payments as rental expenses. Depreciation expense associated with the right-of-use assets is charged over the shorter of period of lease term and expected useful life of the underlying lease on a straight line basis. Interest expenses on the lease liability are recorded under finance costs with reference to the incremental borrowing rate of the lessee and is expected to reduce over the life of the leases as lease payments are made. As a result, the rental expenses under otherwise identical circumstances decreased, while depreciation and interest expense increased and led to an increase in gearing ratio and decrease in interest coverage ratio. The combination of a straight line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability resulted in a change of expenses recognition pattern, in particular, a higher total charge to the consolidated statements of profit or loss and other comprehensive income in the initial years of the lease, and decreasing expenses during the latter part of the lease term, and it led to a decrease in profit before tax in the initial years of the lease as a result. In particular, (i) our Group's current ratio and quick ratio are reduced as a result of the recognition of the current portion of the lease liabilities; (ii) our Group's gearing ratio is increased as a result of the recognition of current and non-current portion of the lease liabilities; (iii) our Group's interest coverage ratio is reduced as a result of the increase in interest expenses on lease liabilities; (iv) our Group's return on assets is reduced as a result of the recognition of right-of-use assets. For further information on the effects of the adoption of IFRS 16, please refer to section headed "Financial Information — Application of IFRS 9, IFRS 15 and IFRS 16" in this prospectus.

### RISKS RELATING TO OUR INDUSTRY

#### **We conduct our business in a heavily regulated industry and incur on-going compliance costs and face potential penalties for non-compliance**

We conduct our business in a heavily regulated industry and therefore incur on-going compliance costs and face potential penalties for non-compliance. The laws and regulations relate mainly to the requirements for medical institutions and equipment, and the licensing, qualifications and number of medical professionals. Please refer to the section headed "Regulatory Overview" in this prospectus for more details. Accordingly, our aesthetic medical institutions and physicians are subject to periodic licensing renewal requirements and inspections by various government agencies and departments. In addition, any changes in laws and regulations, or any change of interpretation thereof, could require us to obtain additional licenses, permits, approvals or certificates, or result in the invalidation of our



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currently owned licenses, permits, approvals or certificates, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences.

During the Track Record Period, some of our aesthetic medical institutions were subject to administrative penalties due to certain non-compliance incidents. Please refer to the section headed “Business — Legal Proceedings and Compliance — Non-compliance incidents ” in this prospectus for more details.

If we fail to obtain or renew any necessary licenses, permits, approvals and certificates, or if our medical professionals become unlicensed at any time during their practices at our aesthetic medical institutions, or if we are found to be non-compliant with any of these laws, regulations or rules, we may face penalties, suspension of operations or even revocation of operating licenses, permits, approvals or certificates, depending on the nature of the findings, any of which could adversely affect our business, financial condition, results of operations and prospects.

In addition, there is no assurance that the governments of the PRC will not impose more stringent laws, rules, regulations or industry standards in connection with the provision of aesthetic medical services. There is also no assurance that we will be able to adapt to such changes in a timely manner. Even if we are able to be compliant with such new laws, rules, regulations or industry standards and the regular audit of the same, it may significantly increase our operating costs, which may in turn lower our profit margins. Any of the abovementioned circumstance may materially and adversely affect our business, results of operations, financial condition and prospects.

**Our business performance may be negatively affected by unfavourable public perception of the overall aesthetic medical service industry**

Our existing and potential clients are generally cautious about the risks inherent in aesthetic medical treatments, and are particularly sensitive to any negative comments, reports or allegations against any aesthetic medical service providers or in relation to aesthetic medical services. From time to time, there are negative news and media reports on the health risks relating to aesthetic medical treatments as well as accidents relating to the aesthetic medical service industry. Any allegations, complaints, or negative news or media reports on any accidents, instances of medical malpractice or professional negligence, unfair selling practices, ineffectiveness of services, or health risks or poor service standard relating to aesthetic medical treatments or aesthetic medical service industry may, regardless of merit, lead to a deterioration in market confidence in aesthetic medical services and a reduction in the overall demand for such services. While such allegations, complaints or negative news or media reports may be unrelated to us, the demand for our aesthetic medical services may decline and the entire aesthetic medical service industry and its participants, including us, could consequently be exposed to reputational harm, which may materially and adversely affect our business, results of operations, financial condition and prospects.

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**We may not be able to maintain our revenue and profitability as we operate in a highly competitive aesthetic medical industry**

Due to continuous technological advancements, the aesthetic medical service industry is defined by rapidly changing market trends. Our clients are constantly looking for innovative and high performance aesthetic medical services at reasonable prices. As a result, we are in constant competition with other aesthetic medical service providers in aspects such as quality and scope of services, comprehensiveness and diversity of aesthetic medical service, aesthetic medical service equipment as well as pricing.

According to Frost & Sullivan Report, we ranked fourth and fifth in terms of aesthetic medical service revenue in 2019 among all private aesthetic medical service providers in Hangzhou City and Zhejiang Province, respectively. In the geographical areas in which we operate, there are other service providers, such as chain-branded aesthetic medical institutions, which in many cases provide services comparable to those which we offer and may have greater financial resources to achieve advantageous position in competition with us. New or existing competitors may provide services similar to those we provide, and may further offer broader services, newer or better facilities or aesthetic medical service equipment, with greater convenience or more specialized physicians, or cheaper pricing.

If we are unable to attract and maintain clients, or unable to stay competitive or compete successfully with our competitors, we may experience a reduction of market share and significant decrease in the volume of client visits at our aesthetic medical institutions, and our brand image and reputation could be forgotten, which could adversely affect our business, financial condition and results of operations.

**A lack of growth in the consumer market or a general economic slowdown or downturn may materially and adversely affect our business performance and results of operations**

Our business performance depends on the sustainable growth of consumer spending on aesthetic medical services. However, there is no assurance that the local economy in the PRC, and in specific in Hangzhou City, Ruian City, Wuhu City or any other places we operate can sustain a continuously stable growth in consumer spending. Further, any economic slowdown, recession or downturn may result in a decrease in consumer spending on aesthetic medical services as well as deter consumer spending willingness, thus reducing the overall demand for our services. Any of the foregoing circumstances may materially and adversely affect our business, results of operations, financial condition and prospects.

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## RISK FACTORS

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### RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

**If the PRC government deems that the Contractual Arrangements in relation to our variable interest entities and their subsidiaries do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.**

Foreign ownership of certain business in PRC is subject to restrictions under current PRC laws and regulations. For example, except for qualified service providers from Hong Kong, Macao Special Administrative Region and Taiwan, foreign investors are not allowed to own 100% of the equity interests in a healthcare institution.

Because we are an exempted company incorporated in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiary, Raily Beauty Consultation, is a foreign-invested enterprise. We entered into a series of contractual arrangements with each of the Registered Shareholders, and the VIE Entities. For a detailed description of these contractual arrangements, please refer to the section headed “Contractual Arrangements” in the prospectus. Through our shareholdings and the Contractual Arrangements, our Company controls the economic benefit of 100% of the equity interest in Hangzhou Raily, Raily Tiange and Ruian Raily.

For the legality of our Contractual Agreement, please refer to the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” in this prospectus. However, our PRC Legal Advisers have also advised us that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations and there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of our PRC Legal Advisers.

On March 15, 2019, the 2nd meeting of the 13th Standing Committee of the National People’s Congress approved the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “**FIL**”) which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as “**Foreign Investors**”), including the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. However, it does not explicitly stipulate the contractual arrangements as a form of foreign investment, nor does it explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Notwithstanding the above, the FIL stipulates that foreign investment includes “Foreign Investors invest in China through many other methods under laws, administrative regulations or provisions prescribed by the State Council”. Although the Regulation on the Implementation of the Foreign Investment Law of the PRC (《中華人

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民共和國外商投資法實施條例》) (the “**FIL Implementing Regulation**”) promulgated by the State Council does not expressly stipulate the contractual arrangements as a form of foreign investment, we cannot assure you that future laws, administrative regulations or provisions to be issued by State Council will not deem contractual arrangements as a way of foreign investment, and then whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements, and as such, how our Contractual Arrangements will be classified remain uncertain. If our ownership structure, contractual arrangements and business or that of our PRC subsidiaries or our variable interest entities are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant governmental authorities would have broad discretion in dealing with such violations, including:

- levying fines on us;
- confiscating our income or the income of our PRC subsidiaries, variable interest entities or their subsidiaries;
- revoking our business licenses and/or operating licenses;
- shutting down our institutions;
- discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring;
- restricting or prohibiting our use of proceeds from this offering to finance our business and operations in the PRC; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would result in us failing to receive a portion of the economic benefits from our variable interest entities and their subsidiaries, which in turn may materially and adversely affect our business, financial condition and results of operations.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements.

In the extreme scenario, we may be required to unwind the Contractual Arrangements and/or dispose of the VIE Entities, which could have a material and adverse effect on our business, financial conditions and results of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding or disposal or when such requirements are not complied with, the Stock Exchange may consider us to be no longer suitable for listing on the Stock Exchange and delist our Company.

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## RISK FACTORS

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**The shareholders of our VIE Entities may have conflicts of interest with us, which may materially and adversely affect our business, financial condition and results of operations**

In connection with our operations in the PRC, we rely on Mr. Fu and Ningbo Ruixuan, the shareholders of our VIE Entities, to abide by the obligations under the Contractual Arrangements. Either of them may potentially have conflict of interest with us and may breach any of their contracts or undertakings with us, if it would further any of their own interests or if any of them otherwise acts in bad faith. We cannot assure you that when conflict of interest arise between our Company and them, any of them will act completely in our interest or that the conflict of interest will be resolved in our favour. In the event that such conflict of interest cannot be resolved in our favour, we may have to rely on legal proceedings which may disrupt our business operations and subject us to uncertainties as to the outcome of such legal proceedings. As a result, our business, financial condition and results of operations may be materially and adversely affected.

**Our Contractual Arrangements may not be as effective in providing operational control to the VIE Entities as direct ownership**

We have 70% equity ownership interests in the VIE Entities and rely on the Contractual Arrangements with these VIE Entities and the Registered Shareholders to control the remaining equity ownership interests in these VIE Entities. For more details, please refer to section headed “Contractual Arrangements” in this prospectus. Save as disclosed in this prospectus, although each agreement comprising the Contractual Arrangements constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these Contractual Arrangements may not be as effective in providing us with control over the VIE Entities as direct ownership. Direct ownership would allow us, for example, to directly exercise our rights as a shareholder to effect changes in the board of directors of those VIE Entities, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level. If the Registered Shareholders or the VIE Entities fails to perform its respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights.

In addition, certain terms of our Contractual Arrangements may not be enforceable under PRC laws. Our Contractual Arrangements provide for the resolution of disputes through arbitration in accordance with the arbitration rules of the Hangzhou Arbitration Commission. Our Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interest and property interest and other assets of our VIE Entities, injunctive relief or order the winding up of our VIE Entities. In addition, our Contractual Arrangements contain provisions to the effect that courts in Hong Kong, the BVI and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, we have been advised by our PRC Legal Advisers that the abovementioned provisions may not be enforceable under the PRC laws. Under PRC laws, a tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our VIE Entities and in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and Cayman Islands may not be recognizable or enforceable in the PRC. Therefore,

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such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in our Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in China in favour of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against an entity as interim remedies to preserve the assets or shares in favour of any aggrieved party.

In the event that we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over the VIE Entities and may not prevent leakage of equity and values to the minority shareholder of the VIE Entities or obtain the full economic benefits of the same. Our ability to conduct our business may be adversely affected.

**The Contractual Arrangements may be considered by the PRC tax authorities as requiring transfer pricing adjustments**

The agreements under Contractual Arrangements were negotiated and executed based on an equal standing and reflect the true commercial intention of the VIE Entities, and other relevant parties thereto. Further, we entered into the agreements under Contractual Arrangements only in respect of those businesses which are subject to foreign ownership restrictions under the laws and/or regulations of PRC. However, if the PRC tax authorities determine that the agreements under Contractual Arrangements were not entered into based on arm's length negotiations and therefore constitute unfavourable transfer pricing arrangements, we may face material adverse tax consequences. Unfavourable transfer pricing arrangements may, among other things, result in an upward adjustment of the amount of tax we are required to pay. In addition, the PRC tax authorities may impose interest on late payments on the VIE Entities or our Group for the adjusted but unpaid taxes.

We are not in a position to predict what position the PRC tax authorities may take in connection with the Contractual Arrangements. Our results of operations may be materially and adversely affected if the VIE Entities' tax liabilities increase significantly or if they are required to pay interest on late payments.

**If we exercise the option to acquire equity ownership of the VIE Entities, the ownership transfer may subject us to certain limitations and substantial costs**

Pursuant to the Contractual Arrangements, Raily Beauty Consultation or its designated person(s) has the exclusive right to purchase all or any part of the equity interest in the VIE Entities from the Registered Shareholders at the consideration of RMB1 or a minimum purchase price permitted under then applicable PRC laws. The equity transfer may be subject to approvals from and filings with relevant governmental authorities or their local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. The Registered



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Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Raily Beauty Consultation any consideration in such way required by Raily Beauty Consultation they receive in the event that Raily Beauty Consultation exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in each of the VIE Entities that exceeds RMB1.0. The amount to be received by Raily Beauty Consultation may also be subject to enterprise income tax. Such tax amounts could be substantial and our financial condition may be adversely affected as a result.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

**PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of the Global Offering to make loans to our PRC subsidiaries, or to make additional capital contributions to our PRC subsidiaries**

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in the PRC. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and our PRC subsidiaries may not procure foreign loans which exceed the difference between their registered capital and their total investment amount. Any medium or long term loan to be provided by us to our PRC subsidiaries must be registered with the SAFE or its local branches and other relative authorities. We may not complete such legal procedures on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC operating subsidiaries. If we fail to complete such legal procedures, our ability to use the proceeds of the Global Offering and to capitalise our PRC operations may be negatively affected, which could adversely affect our PRC subsidiaries liquidity of our PRC operating subsidiaries and our ability to fund and expand our business.

Currently, according to the Circular on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), or SAFE Circular 28, which was implemented on 23 October 2019, apart from foreign-invested enterprises engaged in investment business, foreign-invested enterprises engaged in other businesses are also permitted to make domestic equity investments with their capital funds under the condition that the negative list is not violated and the relevant domestic investment projects are true and complied with. Since SAFE may promulgate regulations to administrate the payment and settlement of foreign currency capital of foreign invested enterprise, and the regulations and practice of administration of the payment and settlement of foreign currency capital of foreign invested enterprise may be different from time to time, these regulations may significantly limit our ability to convert, transfer and use the net proceeds from the Global Offering and any offering of additional equity securities in the PRC, which may adversely affect our business, financial condition and results of operations.

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**Ongoing regulatory reforms in the PRC are unpredictable. Changes in The PRC's regulatory regime for aesthetic medical service industry, particularly changes in aesthetic medical service reform policies, could have a material adverse effect on our business operations and future expansion**

The PRC's regulatory regime governing the aesthetic medical service industry may undergo reform. It is uncertain what impact the new regulations and policies would have on our competitiveness, operations and corporate structure. In recent years, the PRC government has gradually reduced regulatory hurdles for establishing and investing in non-public hospitals, in particular by private capital, and encouraged development of hospital management groups. Our business operations and future expansion are largely driven by the PRC's policies, which may change significantly and are beyond our control. There can be no assurance that the PRC government will not impose additional or stricter laws or regulations on healthcare services or foreign investments, or strengthen and tighten supervision and management of medical institutions including hospitals, in particular, non-public hospitals, or implement stricter or more comprehensive regulations on the distribution of pharmaceutical products, medical devices and medical consumables.

Depending on the priorities of the PRC government, the political climate and the regulatory regime with respect to foreign investment control at any given time, and the development of the Chinese aesthetic medical service system, future regulatory changes may affect public hospital reform, limit private or foreign investments in aesthetic medical service industry or implement additional price control on pharmaceutical products or medical services. Any of these events could have a material and adverse impact on our business, financial condition, results of operations, prospects and future growth.

**Changes in political, social and economic policies in the PRC may materially and adversely affect our business, financial condition, results of operations and prospects**

All of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and the industries by imposing industrial policies and regulating the PRC's macro economy through fiscal and monetary policies.

The PRC economy has undergone a transition from a planned economy to a market oriented economy. The PRC government has, in recent years, taken various actions to introduce market forces for economic reform, to reduce state ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the economy and the industries by issuing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, the monetary policies and preferential treatments to particular industries or enterprises. Our performance has been and will continue to be affected by the PRC's economy, which in turn is influenced by the global economy. The uncertainties

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relating to the global economy as well as the political environment in various regions of the world will continue to impact the PRC's economic growth. While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained.

We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social, and regulatory developments and many of these risks are beyond our control. All such factors may adversely affect our business and operations as well as our financial performance.

**Uncertainties in the legal system and government policies of the PRC may adversely affect our business and limit the legal protection available to you**

Our subsidiaries and operations are located in the PRC and are subject to PRC laws and regulations. The Chinese legal system is a civil law system based on written statutes. Unlike the common law legal system, prior court decisions in a civil law system have little precedential value and can only be used as a reference. Furthermore, The PRC's statutes are subject to the interpretation by the legislative bodies, judicial authorities and enforcement bodies, which increases the uncertainty. Since 1978, when the PRC Government started economic reforms, the PRC has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade. Many of these laws and regulations are relatively new and subject to frequent changes and uncertainties in implementation and interpretation. There may also be new laws and regulations to cover new economic activities in The PRC. We cannot predict the future developments in the Chinese legal system. For example, the PRC government has formulated policies in the past few years encouraging non-public hospitals to procure professional hospital management services, such as the Notice of the State Council on Forwarding the Opinions of the NDRC, the Department of Health (now known as the NHFPC) and other Departments on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions (國家發改委、衛生部(國家衛生計生委)等部門關於進一步鼓勵和引導社會資本舉辦醫療機構意見的通知). We cannot assure you that these favourable governmental policies will not be revoked, suspended or discontinued in the future or that the laws and regulations of the PRC regulating our business will continue to be interpreted in conformity with these policies. Any favourable regulatory developments or court decisions regarding non-public hospitals' procurement of hospital management services or substantial changes in the interpretation of the laws and regulations relevant to our business model could have a material adverse effect on our business and financial position. These uncertainties in the Chinese legal system may adversely affect our business and limit the legal protection available to you.

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**Failure by our Shareholders or beneficial owners who are PRC residents to make required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing dividends and could expose us and our Shareholders who are PRC residents to liability under Chinese laws**

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“SAFE Circular No. 37”), which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident (“PRC Resident”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Offshore SPV”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV’s Chinese subsidiary to distribute dividends to its overseas parent. It is unclear how SAFE Circular No. 37 and any future regulation concerning offshore or cross-border transactions will be interpreted, amended or implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategies. As at the Latest Practicable Date, to the best knowledge of our Directors, our PRC resident shareholder, namely, Mr. Fu, with offshore investment in our Group had registered with SAFE as to his offshore investment in accordance with SAFE Circular No. 37. Any failure by our PRC resident shareholders or beneficial owners to make the registrations or updates with SAFE may subject the relevant PRC resident shareholders or beneficial owners to penalties, restrict our overseas or cross-border investment activities, limit our Chinese subsidiaries’ ability to make distributions or pay dividends, or affect our ownership structure and capital inflow from our offshore subsidiaries. As such, our business, financial condition, results of operations and liquidity as well as our ability to pay dividends or make other distributions to our shareholders may be materially and adversely affected.

**PRC government control of currency conversion and fluctuation in the exchange rates of the Renminbi may adversely affect our business and results of operations and our ability to remit dividends**

Substantially all of our revenue and operating costs are denominated in Renminbi. The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of The PRC. Under existing Chinese foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, registration with the banks entrusted by SAFE is required for foreign currency conversions for payment under capital account items such as

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equity investments. The PRC government may also at its discretion restrict our access in the future to foreign currencies for current account transactions. Under our current corporate structure, our revenue is primarily derived from dividend payments from our subsidiaries in the PRC. Shortages in the availability of foreign currency may restrict the ability of our subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. In addition, since a significant amount of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of The PRC or otherwise fund our business activities that are conducted in foreign currencies.

The exchange rates of the Renminbi against foreign currencies, including the Hong Kong dollar, are affected by, among other things, changes in The PRC's political and economic conditions. In addition, to the extent that we need to convert Hong Kong dollars that we will receive from the Global Offering into Renminbi for our operations, appreciation of Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount that we will receive. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making dividend payments on our Shares or for other business purposes appreciation of the Hong Kong dollar against Renminbi would reduce the Hong Kong dollar amount available to us.

### **RISKS RELATING TO THE GLOBAL OFFERING**

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

Prior to the Global Offering, there has been no public market for our Shares. The initial offer price range for our Shares was determined through negotiations between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Stock Exchange. There is no assurance that an active, liquid public trading market for our Shares will develop, or, if it does develop, that it will be sustained following completion of the Global Offering, or that the trading price of the Shares will not decline below the Offer Price. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

#### **The liquidity, trading volume and market price of our Shares following the Global Offering may be volatile**

The price at which our Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;

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- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment and investors' perception regarding the aesthetic medical service industry and companies;
- changes in laws and regulations in China;
- announcements of competitive developments, acquisitions or strategic alliances in aesthetic medical service industry;
- our ability to compete effectively in the market;
- fluctuations of exchange rates; and
- political, economic, financial and social developments in China and worldwide.

These broad market and industry fluctuations may adversely affect the market price of the Shares.

**Future sales of substantial amounts of the Shares or the availability thereof in the public market may adversely affect the prevailing market price of the Shares and our Group's ability to raise further capital**

Our Company will comply with Rule 10.08 of the Listing Rules, which specifies that no further Shares or securities convertible into equity securities of our Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing Date. Further, Shares held by our Controlling Shareholders, the Pre-IPO Investors and the Cornerstone Investors are subject to certain lock-up undertakings in respect of their Shares. Please refer to the sections headed "History and Reorganization — Pre-IPO Investment", "Cornerstone Investors" and "Underwriting" in this prospectus for a more detailed discussion of restrictions that may apply to future issuances and sales of the Shares.

After these restrictions lapse, the market price of our Shares may decline as a result of the future issuance of new Shares or other securities relating to the Shares, sales of substantial amounts of the Shares or other securities relating to the Shares in the public



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market, or the perception that such issuances or sales may occur. This may also materially and adversely affect our Group's ability to raise capital in the future at a time and at a price we deem appropriate.

### **Dividends distributed in the past may not be indicative of our dividend policy in the future**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, we declared dividends of nil, approximately RMB19.4 million, RMB12.0 million and nil, respectively, all of which had been fully settled in January 2020. Pursuant to the Shareholders' written resolutions of the Company dated 12 April 2019, for the purpose of continuous development of the Group's subsidiaries in the PRC, it was resolved that those subsidiaries established in the PRC will not distribute earnings for the period from 1 April 2019 to 31 December 2019. The amount of dividends we have paid historically is not indicative of our future performance or the amount of dividends that may be paid in the future. Any future declaration of dividends will be proposed by our Board and the amount of any dividends will depend on various factors, including our profitability, financial condition, business development, future prospects, future cash flow and such other factors as our Directors may consider relevant at the time of declaration of any dividends subject to the discretion of our Directors. For details of our dividend policy, please refer to the section headed "Financial Information — Dividend" in this prospectus. We cannot guarantee if and when we will pay dividends in the future.

### **Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins**

The Offer Price of our Offer Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be around five business days after the Price Determination Date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

### **You may have difficulties in protecting your interests because we are a Cayman Islands company and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or other jurisdictions**

We are a Cayman Islands company and our corporate affairs are governed by the Articles, Cayman Companies Act and common law applicable in the Cayman Islands. The laws of Cayman Islands relating to the protection of the interest of minority shareholders may differ from those under statutes and judicial precedent in existence in Hong Kong or other jurisdictions. Therefore, remedies available to the minority shareholders of our Company may be different from those they would have under the laws of Hong Kong or other jurisdictions. Further information is set forth in Appendix V to this prospectus.

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### **The interests of our Controlling Shareholders may conflict with the interests of our Company's public shareholders**

Immediately upon the completion of the Capitalization Issue and the Global Offering (but without taking into account of Shares that may be allotted and issued upon the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), our Controlling Shareholders will own approximately 53.98% of our enlarged issued share capital. Therefore, our Controlling Shareholders will be able to exercise substantial control or influence over our business by directly or indirectly voting at shareholders' meetings in matters that are significant to us and our public Shareholders. For example, they may perform significant corporate actions, affect composition of the Board and affect the issue of dividends. Our Controlling Shareholders may take actions, and exercise influence that favours their interests over the interests of our Company or our public Shareholders. We cannot assure you that our Controlling Shareholders will not cause us to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the best interests of our other Shareholders.

### **Shareholders' interests may be diluted in the future as a result of additional equity fund raising**

We may need to raise additional funds in the future to finance further expansion of our business. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage of ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

Our Company will comply with Rule 10.08 of the Listing Rules, which specifies that no further Shares or securities convertible into equity securities of our Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing Date. Upon expiry of such six-month period, our Group may raise additional funds by way of issue of new equity or equity-linked securities of our Company to finance further expansion of our business, joint ventures or other strategic partnerships and alliances. Such fund-raising exercises may not be conducted on a pro-rata basis to existing Shareholders. As such, the shareholding of the then Shareholders may be reduced or diluted, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

## **RISKS RELATING TO INFORMATION CONTAINED IN THIS PROSPECTUS**

### **Investors should not place undue reliance on facts, statistics and data contained in this prospectus with respect to the economies and our industry**

Certain facts, statistics and data in this prospectus are derived from various sources including various official government sources that we believe to be reliable and appropriate for such information. However, we cannot guarantee the quality or reliability of such source materials. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Whilst our Directors have taken reasonable care in extracting and reproducing the

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## RISK FACTORS

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information, they have not been prepared or independently verified by us, our Controlling Shareholder(s), the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriters or any of their respective directors, officers, affiliates or advisers (other than our independent industry consultant, Frost & Sullivan). Therefore none of them (other than Frost & Sullivan) makes any representation as to the accuracy or completeness of such facts, statistics and data. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the statistics in this prospectus may be inaccurate or may not be comparable to statistics produced for other publications or purposes and you should not place undue reliance on them. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such information or statistics.

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

There may be press and media coverage regarding us or the Global Offering, which may include certain events, financial information, financial projections and other information about us and the Global Offering. We have not authorised the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy and completeness of such press and media coverage and we make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to subscribe for and/or purchase our Shares, you should rely only on the information included in this prospectus and the Application Forms in making your investment decision regarding our Shares. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

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

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “may”, “ought to”, “should” or “will” or similar terms. Those statements include, among other things, the discussion of our Group’s growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our Group’s control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by our Company that our plans or objectives will be achieved

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## **RISK FACTORS**

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and investors should not place undue reliance on such forward-looking statements. Our Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the section headed “Forward-looking Statements” in this prospectus for further details.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

### 1. WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our Company's headquarters and our major business operations are based in the PRC and all of our three executive Directors (namely Mr. Fu, Mr. Yu and Mr. Song) have been, are and are expected to be based in the PRC and are not ordinarily resident in Hong Kong. We believe it would be more effective and efficient for most of our executive Directors to be based in a location where we have significant operations and so that our Group's management is best able to attend to its functions by being based in the PRC. As such, we will not be able to comply with the requirements of Rule 8.12 of the Listing Rules for sufficient management presence in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Fu, an executive Director, and Mr. Chan Oi Fat, a company secretary. They will be able to meet with the Stock Exchange on reasonable notice upon the request of the Stock Exchange and be readily contactable by telephone, facsimile and email by the Stock Exchange;
- (b) each of the authorized representatives will have all necessary means to contact all our Directors promptly at all times, as and when the Stock Exchange wishes to contact our Directors on any matters;
- (c) each of our Directors who are not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time, if required;
- (d) we have, in compliance with Rule 3A.19 of the Listing Rules, engaged Innovax Capital, as our compliance adviser, who will act as an additional channel of communication with the Stock Exchange; and
- (e) to enhance communications among the Stock Exchange, our Directors will provide their respective mobile phone numbers, office phone numbers, email addresses and fax numbers to the authorized representatives as well as the Stock Exchange, and in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorized representatives.

**2. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We have entered into, and are expected to continue, certain transactions which will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules following the completion of the Global Offering. Accordingly, we have applied for, and the Stock Exchange has granted, waivers from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to certain continuing connected transactions between us and certain connected persons. See the sections headed “Contractual Arrangements” and “Connected Transactions” in this prospectus for further details.



**DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding-Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

**PROSPECTUS ISSUED IN CONNECTION WITH HONG KONG PUBLIC OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as at any subsequent time.

**INFORMATION ON THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus, and the procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

**UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants in the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Placing Underwriting Agreement relating to the International Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us. The Global Offering is managed by the Joint Global Coordinators.

For further information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting”.

### **OVER-ALLOTMENT OPTION AND STABILISATION**

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

### **DETERMINATION OF THE OFFER PRICE**

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (acting for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or about Friday, 18 December 2020 and, in any event not later than Sunday, 20 December 2020. If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

### **RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, and is deemed by his acquisition of Hong Kong Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

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

**ELIGIBILITY FOR CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

**APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Our Company has applied to the Listing Committee for the granting of the approval for the listing of, and permission to deal in, the Shares in issue and the Offer Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares to be issued under the Capitalisation Issue, and any Shares which may be issued upon exercise of any option granted or may be granted under the Share Option Scheme). No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

**HONG KONG SHARE REGISTER AND THE STAMP DUTY**

Our Company's principal register of members will be maintained by our principal share registrar, Harneys Fiduciary (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong, and only securities registered on the Hong Kong register of members may be traded on the Stock Exchange unless the Stock Exchange otherwise agrees. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. Unless our Company determines otherwise, dividends payable in HK\$ in respect of the Shares will be paid by cheque sent at the Shareholder's risk to each Shareholder's registered address, or in the case of joint holders, the first-named holder.

**PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

**COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence on Monday, 28 December 2020. The Shares will be traded in board lots of 10,000 each.

**LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the English names of certain Chinese names, entities, departments, associations, facilities, certificates, titles, laws, regulations and the like are unofficial translations of their Chinese names and are included for identification purposes only, and if there is any inconsistency, the Chinese name prevails in such cases.

**EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations of certain RMB amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the RMB amounts could actually be, or have been, converted into Hong Kong dollar amounts (as applicable) at the rates indicated or at all. Unless we indicate otherwise, the translations of RMB amounts into Hong Kong dollars have been made at the rate of RMB1.00 to HK\$1.19.

**ROUNDINGS**

Amounts and percentage figures, including share ownership, operating and financial data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, or the nearest decimal place respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

**WEBSITE**

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
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**Executive Directors**

Mr. Fu Haishu (傅海曙)	Room F2111 Oumeizhongxin Guojigongyu 26 Jiaogonglu, Xixi Avenue Xihu District Hangzhou City PRC	Chinese
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Mr. Yu Kai (余凱)	Room 73, Block 8 14 NanTonglu, Nanzhushan Yuhu District Xiangtan City PRC	Chinese
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Mr. Song Jianliang (宋建良)	No. A-81 Shengshuiyuan Xiushui Shanzhuang Yinhu Street Hangzhou City PRC	Chinese
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**Non-executive Directors**

Mr. Xie Lijun (謝立俊)	Room 703 Diecuiju, Runyushanjinghaoyuan Shangmeilin Fu Tian District Shenzhen PRC	Chinese
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Ms. Fan Qirui (樊啟瑞)	D3-20C Shengshi Yipin 28 Xiangjunbeili Chaoyang District Beijing PRC	Chinese
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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Name	Address	Nationality
<b>Independent non-executive Directors</b>		
Mr. Cao Dequan (曹德全)	Room 601, 1/F, Block 32 Longyueyuan No. 4 Area Huilongguan Changping District Beijing PRC	Chinese
Ms. Yang Xiaofen (楊小芬)	Room 904, Block 35 Jinse Liming Apartment Jiangnan District Hangzhou City PRC	Chinese
Mr. Liu Teng (劉騰)	Flat E, 25/F, Choi Tien Mans Horizon Gardens 11 Tai Koo Wan Road Taikoo Shing Hong Kong	Chinese

Please see the section headed “Directors and Senior Management” in this prospectus for further details regarding our Directors.

## PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor</b>	<b>Innovax Capital Limited</b> Room 2002, 20/F Chinachem Century Tower 178 Gloucester Road Wan Chai Hong Kong
<b>Joint Global Coordinators</b>	<b>Innovax Securities Limited</b> Unit A–C, 20/F Neich Tower 128 Gloucester Road Wan Chai Hong Kong



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Joint Bookrunners

#### **Elstone Securities Limited**

Suite 1601–04, 16/F.  
West Tower, Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

#### **Innovax Securities Limited**

Unit A–C, 20/F  
Neich Tower  
128 Gloucester Road  
Wan Chai  
Hong Kong

#### **Elstone Securities Limited**

Suite 1601–04, 16/F.  
West Tower, Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

#### **BOCOM International Securities Limited**

9/F Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

#### **Essence International Securities (Hong Kong) Limited**

39/F, One Exchange Square  
Central  
Hong Kong

#### **First Fidelity Capital (International) Limited**

Unit 1405, Allied Kajima Building  
138 Gloucester Road  
Wan Chai  
Hong Kong

### Joint Lead Managers

#### **Innovax Securities Limited**

Unit A–C, 20/F  
Neich Tower  
128 Gloucester Road  
Wan Chai  
Hong Kong

#### **Elstone Securities Limited**

Suite 1601–04, 16/F.  
West Tower, Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**BOCOM International Securities Limited**

9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

**Essence International Securities (Hong Kong) Limited**

39/F, One Exchange Square  
Central  
Hong Kong

**First Fidelity Capital (International) Limited**

Unit 1405, Allied Kajima Building  
138 Gloucester Road  
Wan Chai  
Hong Kong

**Kirin Securities Limited**

Room 3801, 38/F  
118 Connaught Road West  
Hong Kong

**Kingkey Securities Group Limited**

44/F, Office Tower, Convention Plaza  
1 Harbour Road  
Wan Chai  
Hong Kong

**Realord Asia Pacific Securities Limited**

Suite 2402 24/F Jardine House  
1 Connaught Place  
Central  
Hong Kong

**Sun International Securities Limited**

Room 2603A, 26/F, One Harbour Square  
181 Hoi Bun Road, Kwun Tong  
Kowloon  
Hong Kong

**Legal Advisers to our Company**

*As to Hong Kong laws:*

**William Ji & Co. LLP**

**in Association with**

**Tian Yuan Law Firm Hong Kong Office**

Suites 3304–3309, 33/F

Jardine House

One Connaught Place

Central, Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*As to PRC laws:*

**Jingtian & Gongcheng**

45/F, K Wah Centre

1010 Huaihai Road (M)

Xuhui District

Shanghai

PRC

*As to Cayman Islands laws:*

**Harney Westwood & Riegels**

3501 The Center

99 Queen's Road Central

Hong Kong

**Legal Advisers to the Sole Sponsor  
and the Underwriters**

*As to Hong Kong laws:*

**Sidley Austin**

39/F

Two Int'l Finance Centre

Central

Hong Kong

*As to PRC laws:*

**Jincheng Tongda & Neal**

10th Floor

China World Tower A

No. 1 Jianguo Menwai Avenue

Chaoyang District

Beijing 100004

PRC

**Auditors and reporting  
accountants**

**Ernst & Young**

*Certified Public Accountants*

22/F CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

**Industry consultant**

**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.**

2504, Weelock Square

1717 Nanjing West Road

Shanghai, 200232

PRC

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Compliance Adviser**

**Innovax Capital Limited**  
Room 2002, 20/F  
Chinachem Century Tower  
178 Gloucester Road  
Wan Chai  
Hong Kong

**Receiving bank**

**DBS Bank (Hong Kong) Limited**  
11th Floor, The Center  
99 Queen's Road Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office in the Cayman Islands</b>	4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
<b>Headquarters and principal place of business in the PRC</b>	3–5/F, Minhang Tower No. 290 North Zhongshan Road Xiacheng District Hangzhou City PRC
<b>Principal place of business in Hong Kong</b>	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Company's website</b>	<u><a href="http://www.ruilizx.com">http://www.ruilizx.com</a></u> <i>(the information contained in this website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Chan Oi Fat (陳愛發) Room SA, 10/F Block 1, Phase 3 Festival City Shatin New Territories Hong Kong
<b>Authorized representatives</b>	Mr. Fu Haishu (傅海曙) Room F2111 Oumeizhongxin Guojigongyu 26 Jiaogonglu, Xixi Avenue Xihu District Hangzhou City PRC  Mr. Chan Oi Fat (陳愛發) Room SA, 10/F Block 1, Phase 3 Festival City Shatin New Territories Hong Kong

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## CORPORATE INFORMATION

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<b>Audit Committee</b>	Mr. Liu Teng (劉騰) ( <i>Chairperson</i> ) Mr. Cao Dequan (曹德全) Ms. Yang Xiaofen (楊小芬)
<b>Nomination Committee</b>	Mr. Fu Haishu (傅海曙) ( <i>Chairperson</i> ) Mr. Cao Dequan (曹德全) Ms. Yang Xiaofen (楊小芬)
<b>Remuneration Committee</b>	Mr. Cao Dequan (曹德全) ( <i>Chairperson</i> ) Mr. Fu Haishu (傅海曙) Mr. Liu Teng (劉騰)
<b>Principal share registrar and transfer office in the Cayman Islands</b>	<b>Harneys Fiduciary (Cayman) Limited</b> 4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
<b>Hong Kong Share Registrar</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal banks</b>	<b>Bank of Jiangsu</b> Hangzhou Binjiang Small and Micro-enterprise Sub-branch Rooms 101–104, 201 1786 Binsheng Road Binjiang District Hangzhou City PRC  <b>China Merchants Bank</b> Hangzhou Future Sci-tech City Sub-branch 1/F, Building 4 Chuangxin Time Plaza 84 Longyuan Road Yuhang District Hangzhou City PRC



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## INDUSTRY OVERVIEW

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*This section and other sections in this prospectus contain certain data and statistics provided by government publications, market data providers and other independent research institutions. In addition, this section and elsewhere in this prospectus contains information which is derived from a report we commissioned from Frost & Sullivan, an Independent Third Party. The information extracted from the Frost & Sullivan Report reflects estimates of market conditions based on samples, and is prepared primarily as a marketing research tool. Our Directors believe that the official government publications and sources of the information extracted from the Frost & Sullivan Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. Such information and statistics has not been independently verified by us, or any of our affiliates or advisers, nor by the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters or any of their respective directors, officers, or representatives or any other persons or party involved in the Global Offering (other than Frost & Sullivan). We, our Directors, officers, or representatives, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters or their respective directors, officers, or representatives, or any party involved in the Global Offering (other than Frost & Sullivan) do not make any representation as to the accuracy, completeness or fairness of such information and, accordingly, you should not unduly rely on such information.*

### SOURCE AND RELIABILITY OF INFORMATION

In connection with the Global Offering, we have engaged Frost & Sullivan, an Independent Third Party, to conduct detailed market analysis of and provide report independent of our influence on the aesthetic medical industry in the PRC. We have relied on the Frost & Sullivan Report in preparation of this prospectus. The aggregate contractual amount for the Frost & Sullivan Report and services provided by Frost & Sullivan is RMB900,000 which is disclosed with the consent of Frost & Sullivan, the payment of which was not contingent upon the Listing. We have not commissioned other customised reports for the purpose of inclusion in this prospectus.

Frost & Sullivan has adopted the following primary assumptions while making projection on the aesthetic medical service market in the PRC: (i) the economy in the PRC is expected to grow at a steady rate supported by favourable government policies as well as global economic recovery, among other factors; (ii) total population in the PRC will remain in an upward trend and its elderly population will grow rapidly; (iii) there will be no material changes in government policies of the aesthetic medical service market in the PRC; (iv) there will be no major technological breakthrough in the aesthetic medical service industry during the forecast period; (v) the outbreak of COVID-19 would be contained in the PRC by the end of 2020; and (vi) in addition to macroeconomic factors, certain industry drivers, including but not limited to the increasing disposable income and increasing awareness of appearance, are likely to drive demand in the forecast period.

Frost & Sullivan prepared its forecast based upon various key market factors and other important factors which are relevant to the designated market. Such key market factors include both assumptions and facts. Therefore, the forecast may not be in line with the actual numbers.

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## INDUSTRY OVERVIEW

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Except otherwise indicated, all data and forecasts included in this section were extracted from the Frost & Sullivan Report. Our Directors have reviewed and confirmed that since the date of the Frost & Sullivan Report, there has not been any material adverse event which may materially qualify, conflict with or affect the data on the overall aesthetic medical service market in the PRC.

### OVERVIEW OF AESTHETIC MEDICAL SERVICE MARKET

Aesthetic medical services refer to services that focus on improving personal appearance through multiple types of treatment. Aesthetic medical service may be categorized as follows:

**Aesthetic Surgery Services** — Aesthetic surgery services primarily comprise aesthetic surgical procedures which are invasive and are performed to alter the appearance of various parts of the face or body, such as eyelids, noses, etc.. Typical aesthetic surgical procedures include: (i) breasts enhancement which include breasts augmentation, lift and reduction; (ii) face and head contouring which include rhinoplasty, double eyelid, chin and cheek enhancement; and (iii) body contouring which include tummy tuck and liposuction.

**Minimally-invasive Aesthetic Services** — Minimally-invasive aesthetic services primarily comprise minimally-invasive procedures which involve minimal penetration into the body tissue and with no surgical incisions to alter the contour of face for a limited period of time. Major procedures of this segment include injections of neurotoxin, such as botulinum toxin type A (including BOTOX®), and dermal fillers, such as hyaluronic acid.

**Aesthetic Dermatology Services** — Aesthetic dermatology services primarily comprise aesthetic energy-based which procedures are performed with equipment that utilize various forms of energy such as laser, radiofrequency, intense pulse light and ultrasound for various purpose, such as acne and pigments removal, rejuvenation applications, and skin lifting and tightening.

**Other Aesthetic Medical Services** — Other aesthetic medical services mainly include aesthetic dental services, chemical peels, acupuncture etc. Aesthetic dental services includes orthodontics, dental implant, dental whitening, etc.. Chemical peeling uses Alpha Hydroxy Acid to gently exfoliate cuticle and inhibit the growth of Bacillus acnes, thus to make skin smooth and clean. Acupuncture is a traditional Chinese aesthetic medical service by stimulating acupoints to relax mind and keep youth.

### OVERVIEW OF THE PRC AESTHETIC MEDICAL SERVICE MARKET

#### Categorization of Aesthetic Medical Service Provider in the PRC

Aesthetic medical service providers in the PRC may be categorized as follows:

**Public Institutions** — Compared with private institutions, public institutions focus more on therapeutic cosmetology, such as postburn plastic surgery.

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## INDUSTRY OVERVIEW

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**Private Institutions** — Many private institutions tend to develop into chain aesthetic medical group to achieve chain operation and business expansion.

### Market Size

According to the Frost & Sullivan Report, with the increase of income level and the transformation of aesthetic medical conception, more and more people tend to use aesthetic medical technology to stay young and beautiful, which may release substantial demand for aesthetic medical services. Meanwhile, private capital has entered the market to build more aesthetic medical institutions. Under such circumstance, the aesthetic medical service industry in the PRC has stepped into fast growth stage. According to the Frost & Sullivan Report, China was the second largest market for the aesthetic medical services in 2018 base on revenue, with approximately 13.5% of global market share of aesthetic medical services market. In addition, it is expected that the China aesthetic medical services market will grow at a CAGR of 17.1% from 2018 to 2023, being the fastest-growing market among the top ten markets globally.

### Comparison of Revenue of Aesthetic Medical Service Market

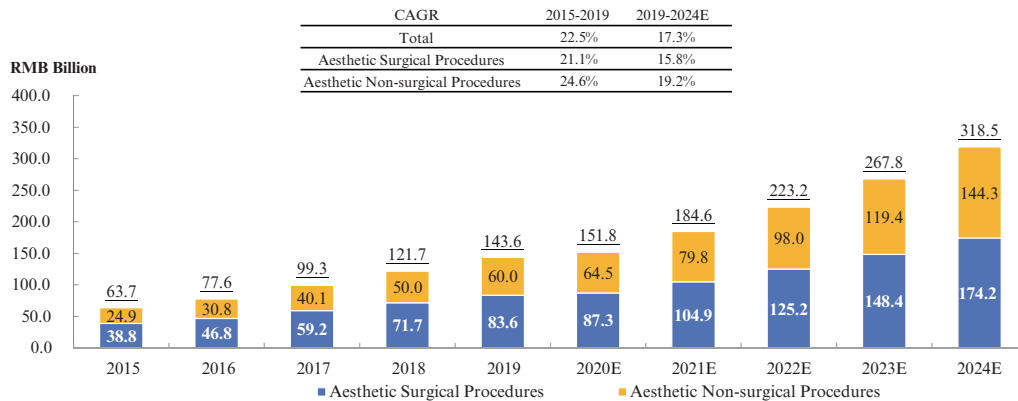
Country	Ranking of total revenue of aesthetic medical service market in 2018	Total revenue of aesthetic medical service market in 2018 (USD million)	2018–2023E CAGR of total revenue of aesthetic medical service market
United States	1	31,376.0	3.7%
China	2	18,379.3	17.1%
Brazil	3	14,653.5	5.3%
South Korea	4	7,466.1	7.0%
Russia	5	4,923.1	8.3%

*Note:* Total revenue of aesthetic medical service market hereby only covers regulated aesthetic medical services in each country.

In the PRC, aesthetic surgical procedures market accounted for around 58.2% of total aesthetic medical service market in 2019, or reached RMB83.6 billion, growing with a CAGR of 21.1% starting from RMB38.8 billion in 2015, according to the Frost & Sullivan Report. In recent years, due to shorter recovery time, aesthetic non-surgical procedures are getting more and more popular in the PRC. Aesthetic non-surgical procedures market has increased from RMB24.9 billion in 2015 to RMB60.0 billion in 2019, with a CAGR of 24.6%, and accounted for around 41.8% of total market in 2019, which grows more rapidly than that of aesthetic surgical procedures during the same period. By 2024, aesthetic non-surgical procedures market in the PRC is forecasted to reach RMB144.3 billion representing approximately 45.3% of total market.

## INDUSTRY OVERVIEW

### Total Revenue of Aesthetic Medical Service Market in the PRC Breakdown by Aesthetic Surgical and Non-surgical Procedures

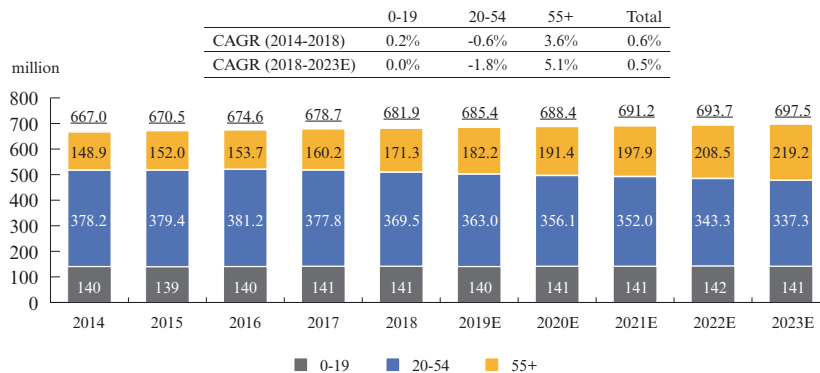


Source: Frost & Sullivan analysis

### Age Structure of Female Population in the PRC

As the main consumers group of aesthetic medical services, female population of 20 to 54 ages remain steady in the PRC. In 2018, the number of female aged 20 to 54 has reached 369.5 million, accounting for 54.2% of the total female population according to the Frost & Sullivan Report. Along with the higher awareness and penetration rate of aesthetic medical services, the market will benefit from the huge population.

### Age Structure of Female Population in China, 2014–2023E



Source: National Bureau of Statistics, Frost & Sullivan analysis

### Per Capita Expenditure on Aesthetic Medical Services in the PRC

Per capita expenditure on aesthetic medical services is calculated as total aesthetic medical services market divided by total population in the PRC. According to the Frost & Sullivan Report, during 2015 to 2019, per capita expenditure on aesthetic medical services in China has increased from RMB46 to RMB103, with a CAGR of 21.9%. In the next 5 years, given the increasing demand of beauty services and rising purchasing power, per capita expenditure on aesthetic medical services in the PRC is projected to reach RMB223 by 2024, representing a CAGR of 16.8% from 2019 to 2024.

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## INDUSTRY OVERVIEW

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### *Per Capita Expenditure on Aesthetic Medical Services in Hangzhou City*

According to the Frost & Sullivan Report, per capita spending of aesthetic medical service in Hangzhou City has grown from RMB169 in 2015 to RMB340 in 2019, representing a CAGR of 19.2%. It is estimated that the per capita spending of aesthetic medical service in Hangzhou City will continue its growth momentum and reach RMB662 in 2024, representing a CAGR of 14.3% from 2019 to 2024.

### *Per Capita Expenditure on Aesthetic Medical Services in Shanghai City*

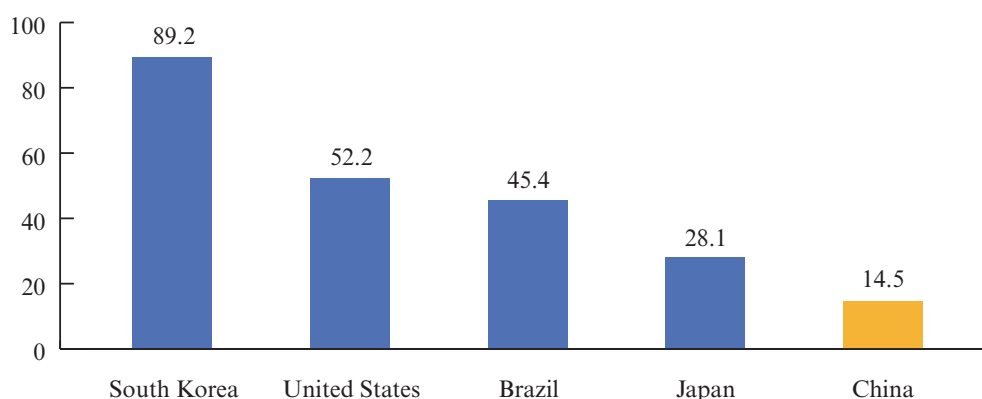
According to the Frost & Sullivan Report, per capita spending of aesthetic medical service in Shanghai City has grown from RMB154 in 2015 to RMB338 in 2019, representing a CAGR of 21.7%. It is estimated that the per capita spending of aesthetic medical service in Shanghai City will continue its growth momentum and reach RMB804 in 2024, representing a CAGR of 18.9% from 2019 to 2024.

According to the Frost & Sullivan Report, as a province contributing 4% of the population in China, Zhejiang Province's aesthetic medical services market contributed 7% of the national market in 2019 in terms of revenue, and Hangzhou City ranked sixth in terms of aesthetic medical service revenue in 2019 among all cities in the PRC.

### **Penetration of Aesthetic Medical Services in the PRC**

According to the Frost & Sullivan Report, the penetration rate of aesthetic medical services in the PRC is still very low compared with other developed countries, where the aesthetic medical procedures per thousand people was only 14.5 in 2018 compared to 52.2 in United States and 89.2 in South Korea, possessing enormous room for development. In particular, penetration rates in lower-tier cities, primarily refer to cities other than Beijing, Shanghai, Guangzhou, Shenzhen and other major provincial centres, are expected to catch up rapidly, contributing more to the overall penetration rate in the PRC.

#### **Aesthetic Medical Procedures per Thousand People in Major Countries, 2018**



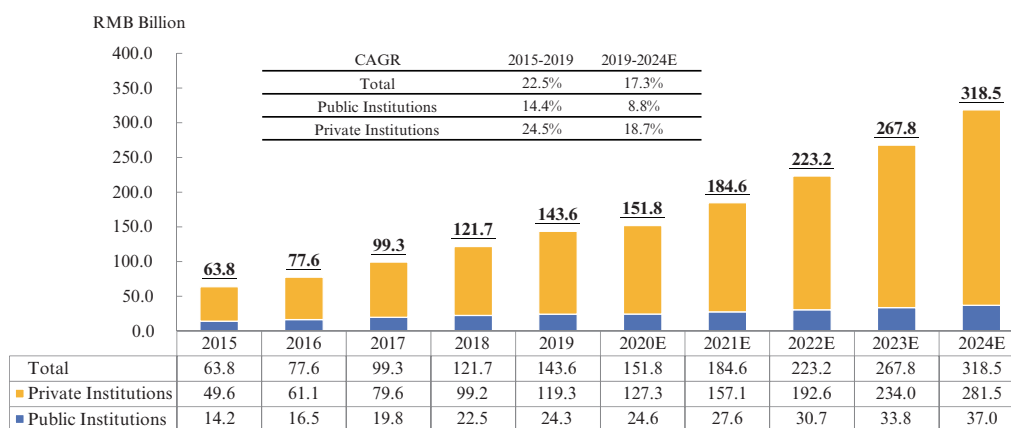
Source: ISAPS, World Bank, Frost & Sullivan analysis

## INDUSTRY OVERVIEW

### THE PRC PRIVATE AESTHETIC MEDICAL SERVICE MARKET

In the PRC, most aesthetic medical institutions are private institutions. Therefore, private institutions dominate the aesthetic medical services in terms of revenue, accounting for around 83.1% of total market in 2019, or RMB119.3 billion, growing with a CAGR of 24.5% starting from RMB49.6 billion in 2015 according to the Frost & Sullivan Report. Driven by increasing aesthetic medical demands and overloaded service capacity of public institutions, aesthetic medical service market of private institutions is projected to reach RMB281.5 billion by 2024. On the other hands, public aesthetic medical service market has grown at a relatively slow pace in recent years. During 2015 to 2019, aesthetic medical service market of public institutions has increased from RMB14.2 billion to RMB24.3 billion, representing a CAGR of 14.4%. By 2024, public aesthetic medical service market is forecasted to reach RMB37.0 billion.

**Total Revenue of Aesthetic Medical Service Market in China Breakdown by Public and Private Institutions**



Source: NHFPC, Frost & Sullivan analysis

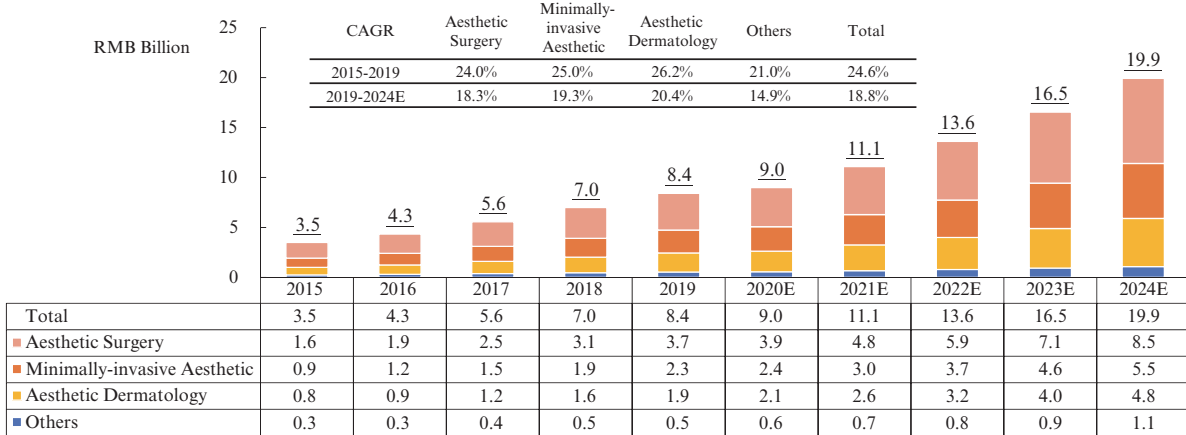
Due to the higher disposable income and acceptance of aesthetic medical services, private aesthetic medical service market in Hangzhou City and Shanghai City have grown from RMB1.3 billion and RMB2.1 billion in 2015 to RMB3.3 billion and RMB5.1 billion in 2019, representing a CAGR of 24.6% and 24.5%, respectively. It is estimated that the private aesthetic medical service market in Hangzhou City and Shanghai City will continue its growth momentum and reach RMB7.8 billion and RMB12.4 billion in 2024 from RMB3.5 billion and RMB5.5 billion in 2020, respectively a CAGR of 22.2% and 22.5%, respectively. Although there has been an outbreak of COVID-19 since January 2020 across China, according to the Frost & Sullivan Report, the market of private aesthetic medical services in Zhejiang Province, Anhui Province and Shanghai City will continue growing in 2020 and 2021 on the basis that (i) the impact of outbreak of COVID-19 on the aesthetic medical market in the PRC is temporary; (ii) the PRC government has taken various measures to reduce the potential spread and impact of infection as well as adopted various incentive policies to boost the economy; and (iii) the outbreak of COVID-19 has gradually been contained in the second quarter of 2020 in the PRC with work and school activities gradually resuming to pre-outbreak levels.

The market of private aesthetic surgery services in Zhejiang Province has grown from RMB1.6 billion in 2015 to RMB3.7 billion in 2019 and is estimated to reach RMB8.5 billion in 2024.



## INDUSTRY OVERVIEW

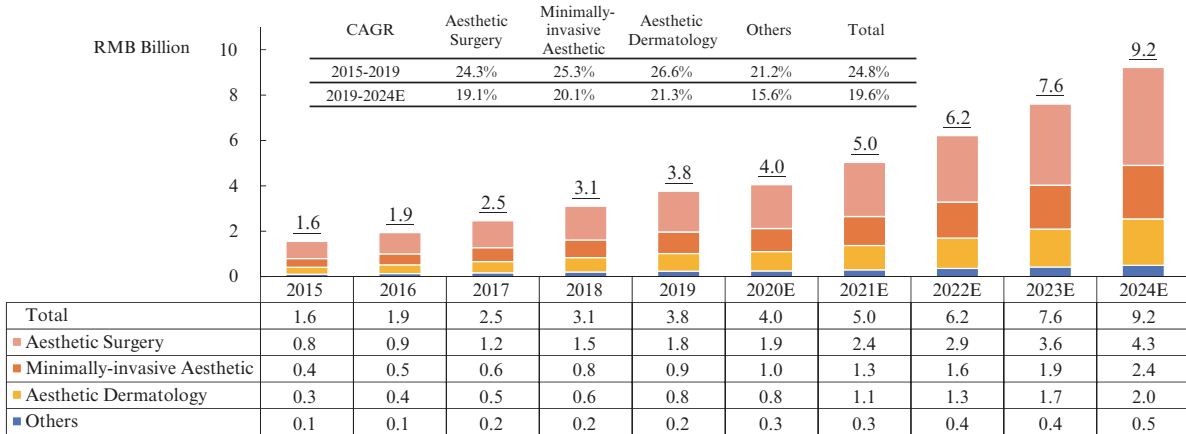
### Private Aesthetic Medical Service Market in Zhejiang Province by service type, 2015–2024E



Source: Frost & Sullivan analysis

The per capita annual disposable income of Anhui Province residents has increased from RMB26,936 in 2015 to RMB37,540 in 2019, representing a CAGR of 8.7%. Due to the increasing disposable income and maturity in medical technology in Anhui Province, the market of private aesthetic surgery services in Anhui Province has grown from RMB0.8 billion in 2015 to RMB1.8 billion in 2019 and is estimated to reach RMB4.31 billion in 2024.

### Private Aesthetic Medical Service Market in Anhui Province by service type, 2015–2024E

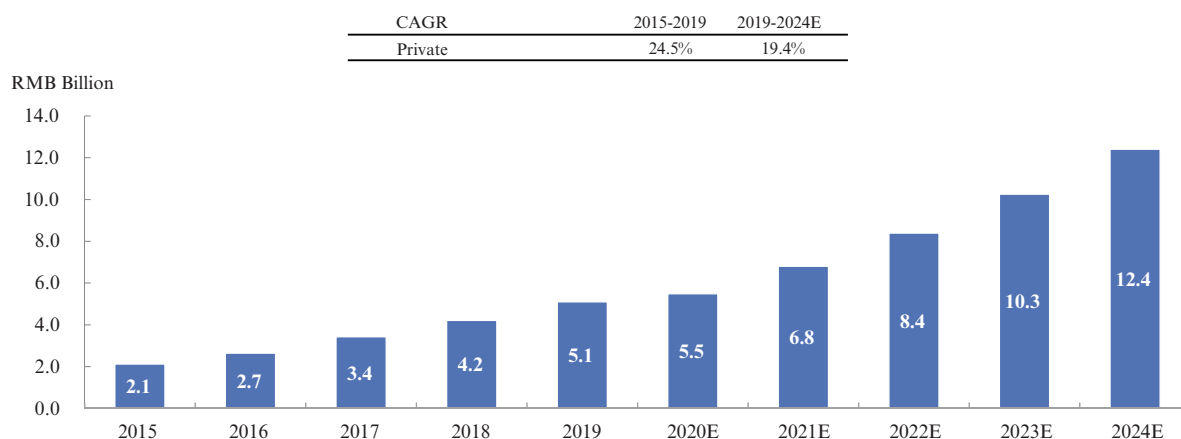


Source: Frost & Sullivan analysis

The per capita annual disposable income of Shanghai City residents has increased from RMB53,962 in 2015 to RMB73,615 in 2019, representing a CAGR of 8.6%. Due to the higher disposable income and acceptance of aesthetic medical services in Shanghai City, the market of private aesthetic medical service market in Shanghai City has grown from RMB2.1 billion in 2015 to RMB5.1 billion in 2019, representing a CAGR of 24.5%, and is estimated to reach RMB12.4 billion in 2024 at a CAGR of 19.4%.

## INDUSTRY OVERVIEW

### Private Aesthetic Medical Service Market in Shanghai, 2015–2024E



Source: Frost & Sullivan analysis

### FACTORS DRIVING THE GROWTH OF THE PRC PRIVATE AESTHETIC MEDICAL SERVICES MARKET

From 2020 to 2024, it is expected that the PRC private aesthetic medical service market will grow at a CAGR of 21.9%. Such growth is assumed based on following driving factors:

**The growing popularity and social acceptance of aesthetic medical services** — Along with the spread of popular culture and celebrity/celebrities effect, and the experience share of key opinions leaders and celebrity/celebrities in social platforms, aesthetic medical services has been fully promoted nowadays. Thus, the society show growing acceptance for aesthetic medical services. Besides, aesthetic medical services have been more popular since people can improve their appearance via the assistance of aesthetic medical services.

**Increase in the disposable income and the level of consumption** — According to the information from National Bureau of Statistics, the per capita annual disposable income of Chinese residents has increased from RMB21,966 in 2015 to RMB30,733 in 2019, representing a CAGR of 8.8%. The increasing disposable income has raised the purchasing power. In addition, China is in the stage of consumption upgrade from material consumption to service consumption. During 2015 to 2019, the consumption proportion of food, drink and clothing has declined from 38.0% to 34.4%, while the consumption proportion of healthcare services has grown from 7.4% to 8.8%. Therefore, under the trend of consumption upgrade, the consumption level of aesthetic medical services in the PRC will continue to grow.

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## INDUSTRY OVERVIEW

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**Maturity in medical technology and lower risk** — With the technical development, the novel aesthetic medical technologies and products may provide more feasible procedures for clients. The application of autologous fat transplantation technique, endoscopic breast augmentation technique and rhinoplasty technique can improve the quality of plastic surgeries and better ensure the safety of treatment. Furthermore, aesthetic non-surgical procedures, such as aesthetic injection procedures and aesthetic energy-based procedures, have developed rapidly in recent years. With low risk and short recovery time, aesthetic non-surgical procedures are woundless with minimal side effects from aesthetic surgical procedures, and may become more popular among clients in the PRC.

### ENTRY BARRIERS OF THE PRC PRIVATE AESTHETIC MEDICAL SERVICE MARKET

New competitors in the PRC aesthetic medical service market will encounter following entry barriers.

**Strict regulatory standards on the industry** — In the PRC, the aesthetic medical service industry is a medical field with strict industrial standard of industry regulation. According to National Health and Family Planning Commission, aesthetic medical service providers are required to apply for license under “Measures for the Administration of aesthetic medical Services (醫療美容服務管理辦法)”. Moreover, aesthetic medical doctors should have the practicing qualification and working experience in the relevant field. Therefore, in order to conduct legal aesthetic medical services, new entrants should ensure the industry compliance.

**High emphasis on capability to provide safe and professional services** — Most customers prefer to go to aesthetic medical institutions with safe and professional service capability, which are heavily influenced by the professional levels of medical teams. Experienced aesthetic medical doctors can be regarded as brand image of aesthetic medical institutions. However, seasoned aesthetic medical doctors are scarce resources in the PRC, and it usually takes a long time to cultivate a qualified aesthetic medical doctor. Therefore, new entrants will be confronted with difficulties in recruiting and retaining excellent aesthetic medical talents, which in return affects the service capability.

**Difficulties in building up a new brand and its reputation** — In the PRC, the players in the aesthetic medical service industry usually depend on brand reputation to develop their business. Meanwhile, clients tend to choose well-known aesthetic medical institutions to seek for reliable and safe aesthetic medical services. Before treatment, doctors and customers should communicate with each other efficiently to ensure that both sides can agree with the aesthetic medical service items. Any dissatisfactory services may have a negative effect on the brand reputation of aesthetic medical service providers. For new entrants, it could be difficult to establish good brand reputation in a short period of time.

## INDUSTRY OVERVIEW

**Capital intensive nature** — To enter aesthetic medical service market in the PRC, new entrants usually need a large sum of initial capital to purchase essential aesthetic medical services equipment as well as medical products. In addition, the aesthetic medical institutions should rent or purchase proper workplace to provide aesthetic medical services for clients, which may cost venue fee. Furthermore, it takes both manpower and financial resources to employ eligible aesthetic medical practitioners to provide quality aesthetic medical services for clients and to lay a foundation for sustainable development of the market players. Therefore, new entrants have to prepare abundant capital to support the operation of aesthetic medical business in the early stage.

### COMPETITION IN THE PRC AESTHETIC MEDICAL SERVICE MARKET

#### Competitive Landscape in Hangzhou City

There were approximately 300 aesthetic medical service providers in Hangzhou City in December 2019. The top market participant accounted for approximately 13.4% of market share while the aggregate market share for the second to fifth largest market participants accounted for 16.6% of market share in terms of revenue of aesthetic medical services in 2019. We had a market share of approximately 4.1% in terms of revenue of aesthetic medical services and ranked fourth in the aesthetic medical service market of Hangzhou City in 2019.

#### Top Five Players of Aesthetic Medical Service in Hangzhou City by Revenue in 2019

Rank	Aesthetic Medical Institution/Group	Profile <sup>(2)</sup>	Market Share
1	Company A	A regional leading group whose business focuses on Zhejiang, especially in Hangzhou Market	13.4%
2	Company B	A nationwide leading aesthetic medical group that headquarters in Shanghai and has around 20 aesthetic medical institutions locate at around 15 cities	5.1%
3	Company C	A nationwide leading aesthetic medical group that headquarters in Shanghai and has more than 30 aesthetic medical institutions locate at around 30 cities	5.1%
4	Our Group	A regional leading aesthetic medical group which has a good growth momentum in the future and puts emphasis on quality services and has acquired many important awards	4.1% <sup>(1)</sup>
5	Company D	A young and energetic medical institution which provides diversified aesthetic medical services	2.3%
			<b>30.0%</b>
Other aesthetic medical institutions or groups			<b>70.0%</b>
Total			<b>100%</b>

*Source: Frost & Sullivan analysis*

*Notes:*

- (1) Only revenue from Hangzhou Raily and Raily Tiange were included for ranking.
- (2) Company A, Company B, Company C and Company D are not listed companies.

## INDUSTRY OVERVIEW

### Competitive Landscape in Zhejiang Province

There were approximately 850 aesthetic medical service providers in Zhejiang Province in December 2019. The top market participant accounted for approximately 5.7% of market share while the aggregate market share for the second to fifth largest market participants accounted for approximately 11.8% of market share in terms of revenue of aesthetic medical services in 2019. We had a market share of approximately 1.9% in terms of revenue of aesthetic medical services and ranked fifth in the aesthetic medical service market of Zhejiang Province in 2019.

#### Top Five Players of Aesthetic Medical Service in Zhejiang Province by Revenue in 2019

Rank	Aesthetic Medical Institution/Group	Profile <sup>(2)</sup>	Market Share
1	Company A	A regional leading group whose business focuses on Zhejiang, especially in Hangzhou Market	5.7%
2	Company C	A nationwide leading aesthetic medical group that headquarters in Shanghai and has more than 30 aesthetic medical institutions locate at around 30 cities	3.4%
3	Company E	A regional leading aesthetic medical group which was established in Jinhua City and can be traced back to 1992	3.3%
4	Company B	A nationwide leading aesthetic medical group that headquarters in Shanghai and has around 20 aesthetic medical institutions locate at around 15 cities	3.2%
5	Our Group	A young and energetic medical institution which provides diversified aesthetic medical services	1.9% <sup>(1)</sup>
			<b>17.5%</b>
Other aesthetic medical institutions or groups			<b>82.5%</b>
Total			<b>100%</b>

*Source: Frost & Sullivan analysis*

*Notes:*

- (1) Revenue from Wuhu Raily was not included for ranking.
- (2) Company A, Company B, Company C and Company E are not listed companies.

Our Group recorded a generally stronger revenue growth rate during the three years ended 31 December 2019 than the top five players of aesthetic medical service industry in Hangzhou City and Zhejiang Province as listed above. This was mainly due to (i) considering our relatively smaller business scale with smaller revenue base than those top five player, a smaller increase in the absolute value of our Group's revenue would result in a relatively higher percentage increment; (ii) according to the Frost & Sullivan Report, the extent of revenue growth in aesthetic non-surgery procedures have exceeded that of aesthetic surgery procedures between 2015 and 2019. Our Group's relatively stronger focus on non-surgery aesthetic medical procedures thus allowed our Group to outperform the top five players in terms of revenue growth; and (iii) while our Group is able to maintain our reputation in the market, our extent of revenue growth would be better than those service providers with adverse publicity.

## INDUSTRY OVERVIEW

### Competitive Landscape in Shanghai City

According to the Frost & Sullivan Report, in December 2019, there were around 400 registered aesthetic medical service providers in Shanghai City, among which less than 5% were aesthetic medical hospitals. The private aesthetic medical services market in Shanghai City is highly concentrated by top market players with the top five market participants accounting for approximately 38.1% of market share in terms of revenue of aesthetic medical services in 2019 in Shanghai City and two of which have established aesthetic medical hospital in Shanghai City.

#### Top Five Players of Aesthetic Medical Service in Shanghai City by Revenue in 2019

Rank	Aesthetic Medical Institution/Group	Profile	Market Share
1	Company F	An aesthetic medical service provider with aesthetic medical institutions in Shanghai, Beijing, Wuhan, Guangzhou, Hong Kong and Japan	14.2%
2	Company G	An aesthetic medical service provider with strong physician team most of which came from a public hospital in Shanghai City	7.0%
3	Company H	One of the earliest private aesthetic medical institutions in Shanghai which has been one of the two institutions that were awarded 5A recognition by CAPA	6.5%
4	Company C	A nationwide leading aesthetic medical group that headquarters in Shanghai and has more than 30 aesthetic medical institutions locate at around 30 cities	6.3%
5	Company B	A nationwide leading aesthetic medical group that headquartered in Shanghai and has around 20 aesthetic medical institutions locating at around 15 cities	4.0%
			<b>38.1%</b>
Other aesthetic medical institutions or groups			<b>61.9%</b>
Total			<b>100%</b>

*Source: Frost & Sullivan analysis*



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## INDUSTRY OVERVIEW

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There were only two listed aesthetic medical service providers which operated aesthetic medical institutions in Shanghai City and only two aesthetic medical institutions in Shanghai City that were awarded “5A” recognition by CAPA as at the Latest Practicable Date. According to public information and the Frost & Sullivan Report, below sets forth certain background information of the two listed aesthetic medical service providers which operated aesthetic medical institutions in Shanghai City:

	Listing date	Place of listing	Approximate revenue in 2018	Profile
Listed Company I	25 October 2019	NASDAQ Stock Market	RMB761 million	One of largest private aesthetic medical service providers in the PRC based on its revenue in 2018, and provide services through 21 treatment centers in the PRC, Hong Kong and Singapore.
Listed Company J	12 January 2016	National Equities Exchange and Quotations	RMB116 million	A private aesthetic medical service provider provides high-quality aesthetic medical services to the middle and high-end clients in the PRC.

## DEVELOPMENT TREND OF THE PRC AESTHETIC MEDICAL SERVICE MARKET

It is expected that the PRC aesthetic medical market will be subject to the influences of following trends:

**Strict regulatory environment** — Along with the fast growth of aesthetic medical service industry, the PRC government will conduct severe crackdown on illegal aesthetic medical behaviors to ensure the healthy development of aesthetic medical service market. Under the tightening regulatory framework, large-scale aesthetic medical service providers will benefit more from such trends. Strict supervision will guide more consumers to move from non-regulated aesthetic medical institutions to regulated aesthetic medical institutions for aesthetic medical services, and therefore promote the development of industry compliance.

**Technological progress of aesthetic surgical procedures** — With the development of aesthetic medical technology, there are many novel techniques such as customized comprehensive rhinoplasty emerging in the aesthetic plastic procedure field, which will better meet clients’ needs and improve the safety of treatments. Due to relatively high entry barrier, provision of aesthetic surgical procedures with high quality signifies advanced technology, high skill level of doctors and good brand reputation for aesthetic medical service providers. In the near future, aesthetic medical institutions with skillful doctors who are able to perform higher quality aesthetic surgical procedures are able to attract more consumers, which will promote the business growth of aesthetic injection procedures and aesthetic energy-based procedures at the same time.

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## INDUSTRY OVERVIEW

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**Rapid development of aesthetic injection procedures and aesthetic energy-based procedures** — With technical innovation, more and more clients are in favour of safe and painless aesthetic medical services. As clients are generally concerned about the risks related to plastic surgeries, aesthetic injection procedures and aesthetic energy-based procedures with shorter recovery time and relatively lower risks of complications can better meet the clients' demand for aesthetic medical services, such as photo rejuvenation. In the near future, more clients tend to choose aesthetic injection procedures and aesthetic energy-based procedures to improve their appearance, which will promote the rapid development of such aesthetic medical procedures.

### INDUSTRY OUTLOOK AND COMPETITIVE LANDSCAPE OF AESTHETIC MEDICAL MANAGEMENT CONSULTING SERVICES IN THE PRC

#### Industry Outlook

The key driving factors for the aesthetic medical management consulting service market in the PRC are (i) the blooming e-commerce market of aesthetic medical services in the PRC; and (ii) the increasing demand from aesthetic medical service providers for professional advice to increase the efficiency of online marketing apart from traditional marketing channels. Year 2015 to 2018 was the blooming age for e-commerce of aesthetic medical services in the PRC where rapid growth of revenue was recorded on various e-commerce platforms. The revenue of aesthetic medical services generated from e-commerce platforms had significantly grown from approximately RMB190 million in 2015 to RMB4,622 million in 2019, representing a significant CAGR of 122.1%. However, given (i) most of the aesthetic medical service providers have limited experience in and are unfamiliar with new channels of online marketing since they had traditionally been focusing their marketing efforts on out-of-home advertisement and clients' referral; and (ii) the intense competition from other aesthetic medical service providers on various online platforms, aesthetic medical service providers have been struggling to improve the efficiency of online marketing strategies. Due to the unique characteristics of the aesthetic medical service industry with unique target consumers, operational ecology and regulatory environment, aesthetic medical service providers prefer to engage consulting service firm which specialized in aesthetic medical services since general marketing or management consulting firms may not be familiar with the aesthetic medical service industry. Thus, there has been an increasing demand from aesthetic medical service providers for professional aesthetic medical management consulting services in the PRC in order to efficiently adjust their marketing strategies to capture the online traffic and increase their efficiency of online marketing.

#### Competitive landscape

Based on the market research conducted by Frost & Sullivan, there were less than ten management consulting service firms (including that of our Group) with operating history of five years or more and specialized in aesthetic medical services in the PRC in mid-2020. Albeit for the low capital input and low regulatory threshold for establishing new management consulting service providers in the PRC, Frost & Sullivan advised that the key entry barriers for aesthetic medical management consulting service providers in the PRC are

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## INDUSTRY OVERVIEW

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(i) the difficulties in building brand reputation and clientele network; (ii) the difficulties in constructing service team with relevant experience; and (iii) the lack of familiarity with the aesthetic medical service industry. Given the relatively recent bloom in the e-commerce market of aesthetic medical services in the PRC and the related demand from aesthetic medical service providers for professional advice to increase the efficiency of online marketing apart from traditional marketing channels, it is generally difficult for new player to build brand reputation and clientele network and construct service team with relevant experience while at the same time familiar with the aesthetic medical service industry, thus leading to the scarcity of service providers in the market.

### LICENSED E-PTFE IN CHINA

According to the Frost & Sullivan Report, e-PTFE is a subcutaneous implant for shaping, which is mainly used for augmentation of nasal dorsum, chin, etc.. Compared with other implants like silicone, e-PTFE presents better histocompatibility due to its multi-pore structure, which enables tissues to grow and combine with e-PTFE. The lightweight nature of the implants prevent it from sliding under the skin and compressing bone tissues. With its substantial benefits over other implant materials, e-PTFE is expected to become a more popular implant material in the future. As at the Latest Practicable Date, there were only three foreign manufacturers of e-PTFE implant which obtained Registration Certificate for Medical Device issued by NMPA (including the manufacturer of Chuzhen Facial Implant), while three domestic manufacturers of e-PTFE implant which obtained Registration Certificate for Medical Device issued to by NMPA.

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## REGULATORY OVERVIEW

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This section sets forth a summary of major PRC laws and regulations that affect our business and the industry in which we operate.

### REGULATORY SUPERVISION OF HEALTHCARE SECTOR IN PRC

#### Categories of Medical Institutions in PRC

Medical institutions in PRC are mainly identified as not-for-profit medical institutions (“NMI”) and for-profit medical institutions (“PMI”). Key basis for identifying either type of the two medical institutions include business purpose, service task and applicable financial, tax and pricing policies and accounting standards. NMIs do not aim at generating profit for their own. Positive accounting balance resulting from operation must be used for self-development. NMIs are eligible for preferential tax policies and for financial subsidies from local governments. On the other hand, NMIs must comply with the pricing guidance for medical service stipulated by governments from time to time, and the rules and policies issued by the Ministry of Finance and Ministry of Health including Hospital Finance System and Hospital Accounting System. PMIs may distribute their profit to their investors as economic returns. Based on its marketing needs, PMIs have the discretion to set the fees and prices for their medical and healthcare services. In establishing internal control system, they may apply the finance and accounting system and other policies suitable for corporate enterprise. When applying for approval, registration and verification in connected with their incorporation, a medical institution must state its business nature to healthcare administrative authorities and must specify on its practice registration as “not-for-profit” or “for-profit”.

#### REFORM OF MEDICAL INSTITUTIONS

##### Opinions of the Central Committee of the Communist Party and the State Council on Promoting Further Reform of the Healthcare System

*The Opinions of the Central Committee of the Communist Party and the State Council on Promoting Further Reform of the Healthcare System* (《中共中央國務院關於深化醫藥衛生體制改革的意見》) (the “**Opinions**”), which were promulgated by the State Council on 17 March 2009, advocate a range of measures to reform medical institutions in the PRC and to establish a basic healthcare system covering urban and rural residents. These measures aim at reforming medical institutions, include the separation of: (i) government agencies and public medical institutions, (ii) PMIs and NMIs, (iii) sponsorship and operations of public hospitals, and (iv) pharmaceutical dispensing and pharmaceutical prescription. The Opinions include proposals for establishing and improving of the corporate governance at public medical institutions, and the checks and balances in decision-making, execution and supervision processes between the owners and operators of public medical institutions. The Opinions also encourage private capital to invest in medical institutions (including investments by foreign investors), the development of private medical institutions and the reform of public medical institutions (including those established by state-owned enterprises) through private capital investment.

### **The Several Opinions on Promoting the Development of Healthcare Service Industry**

The Several Opinions on Promoting the Development of Healthcare Service Industry (《國務院關於促進健康服務業發展的若干意見》) were promulgated by the State Council on 28 September 2013. The opinions encourage the private sector to invest in the healthcare service industry by various means including new establishment and participation in restructuring, and also encourage private capital investment in NMIs for provision of basic healthcare services. The opinions propose the idea of relaxing the requirements for sino-foreign equity joint or cooperative joint healthcare institutions and expand eligibility in the pilot program for wholly foreign-invested healthcare institutions. The purpose is to develop a comprehensive structure that consists of NMIs as principal body and PMIs as complementary while public medical institutions are mainstream and private medical institutions can develop together. The government supports diversified healthcare services, development of healthcare examination and consultation and other healthcare services. Guidance shall be made to improve the service level of the medical institutions.

### **The Several Opinions on Accelerating the Development of Healthcare institutions with Social Capital**

The Several Opinions on Accelerating the Development of Healthcare Institutions with Social Capital (《關於加快發展社會辦醫的若干意見》), which were promulgated on 30 December 2013 by the NHFPC and the State Administration of Traditional Chinese Medicine, stipulate the policies that support the development of private-invested healthcare institutions, including the (i) gradual relaxation of requirements for foreign investment in healthcare institutions, allowing Hong Kong, Macao and Taiwan qualified service providers to establish wholly-owned hospital to prefecture-level cities in the PRC, other qualified foreign capital to set up wholly-owned hospital in China (Shanghai) Pilot Free Trade Zone or other specific areas; (ii) relaxation of requirements for service sectors, allowing social capital's investment in the areas which are not explicitly prohibited; (iii) relaxation of requirements for the deployment and use of large medical equipment in private hospitals; (iv) improvement of supporting policies for the development of private hospitals in aspects such as medical insurance and price control; and (v) acceleration of the approval processing regarding the establishment and operation of private hospitals.

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

The Law on the Promotion of Basic Medical Care, Hygiene and Health (《基本醫療衛生與健康促進法》) was released by the SCNPC on 28 December 2019 and came into effect on 1 June 2020. It only sets out the guiding principles for the future development of the medical system of PRC without conclusive implementation details.

The guiding principles stipulated by such Law on Promotion of Basic Medical Care, Hygiene and Health include (i) government-run medical institution shall not set up non-independent legal person medical institution with other organizations, or cooperate with social capital to establish PMI; and (ii) the government will take measures to encourage and guide social resources to set up medical institution, and such institution will enjoy similar benefits as government-run institution, in certain areas including basic medical insurance coverage, research and teaching, access to specific medical technologies, and title

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assessment of medical staff. As advised by our PRC Legal Advisers, such law mainly sets out the general rules for conducting and regulating medical care, hygiene and health business in the PRC, and pursuant to which, detailed implementation rules could be promulgated by local government authorities. As at the Latest Practicable Date, there were no detailed implementation rules nor any implementation measures being promulgated for such law. Since such law only provides the guiding principles for the development of the medical system of PRC with no conclusive implementation details, it will not have an immediate and material impact on our Group's business.

### REGULATIONS ON THE ADMINISTRATION OF HEALTHCARE INSTITUTIONS

#### **Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions**

The Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions (《中外合資、合作醫療機構管理暫行辦法》), which were promulgated by the Ministry of Foreign Trade and Economic Cooperation on 15 May 2000 and came into effect on 1 July 2000, allow foreign investors to partner with Chinese medical entities to establish a medical institution in the PRC by means of equity joint venture or cooperative joint venture. Establishment of equity joint venture or cooperative joint venture shall meet certain requirements, including the total investment sum shall not be less than RMB20 million and the equity percentage of the Chinese partner in the joint venture shall not be less than 30%. These investor qualification requirements and establishment criteria may be relaxed where the foreign-invested medical institution is to be established in Central and Western China or areas inhabited by more elderly, ethnic-minorities and poorer demographics. Establishment of equity joint venture or cooperative medical institutions shall be subject to approval by relevant authorities.

#### **The Administrative Measures on Healthcare Institutions and the Medical Institution Practising License**

The Administrative Measures on Healthcare Institutions (《醫療機構管理條例》), which were promulgated on 26 February 1994 by the State Council and came into effect on 1 September 1994 and revised on 6 February 2016 and the Implementation Measures of the Administrative Measures on Healthcare Institutions (《醫療機構管理條例實施細則》), which were promulgated by the NHFPC on 29 August 1994 and came into effect on 1 September 1994 and revised on 1 November 2006, 24 June 2008 and 21 February 2017, respectively, stipulate that the establishment of healthcare institutions shall be reviewed and approved by healthcare administrative departments at or above the county level and obtain Approval Letter of Establishment of Medical Institution. Any entity or individual that intends to establish a healthcare institution must follow the application approval procedures and register with the relevant healthcare administrative authorities to obtain the Medical Institution Practising License (醫療機構執業許可證).



### **The Administrative Measures for the Examination of Healthcare Institutions (For Trial Implementation)**

According to Administrative Measures for the Examination of Healthcare Institutions (For Trial Implementation) (《醫療機構校驗管理辦法(試行)》), which was promulgated by the NHFPC and came into effect on 15 June 2009, the registration authorities shall periodically verify the Practice License of Medical Institutions. Verification period shall be 3 years for general hospitals, hospitals of traditional Chinese medicine, hospitals of western medicine and traditional Chinese medicine, hospitals of ethnic minority medicine and specialized hospitals, as well as sanitariums, rehabilitation hospitals, maternity and children's health care centres, emergency centres, clinical laboratories and specialized disease prevention institutions equipped with more than 100 beds, while the verification period shall be 1 year for other medical institutions. In the event that a medical institution fails to apply for verification as required and post re-verification procedures or unsuccessful in its re-verification application, the registration authorities may cancel its Practice License of Medical Institutions.

### **REGULATIONS ON THE AESTHETIC MEDICAL SERVICES**

#### **Administrative Measures for Aesthetic Medical Services**

The Administrative Measures for Aesthetic Medical Services (《醫療美容服務管理辦法》), which were promulgated by the NHFPC on 22 January 2002, came into effect on 1 May 2002 and amended on 13 February 2009 and 19 January 2016, stipulate that aesthetic medical item shall be classified as first-level subject, aesthetic surgery, aesthetic dentistry, aesthetic dermatology and aesthetic Chinese medicine shall be classified as secondary subject. Medical practitioners of aesthetic medical services shall obtain the qualification license of aesthetic medical attending in-charge physician or provide aesthetic medical clinical services under supervision of licensed attending in-charge physician. An aesthetic medical attending in-charge physician shall have, among others, (i) the physician qualification certificate and registration with relevant authority, (ii) working experience with relevant clinical specialties and (iii) aesthetic medical training or an advanced education certificate or not less than one-year clinical working experience in aesthetic medical services. Personnel providing aesthetic medical nursing services shall meet relevant requirements including but not limited to (i) nurse qualifications and registrations with relevant authorities, (ii) no less than two-year nursing working experience and (iii) aesthetic medical nursing training or advanced education certificates or not less than six-month clinical nursing working experience in aesthetic medical services. Provincial level health authorities shall be responsible for qualification review of aesthetic medical attending in-charge physician. The attending in-charge physician responsible for aesthetic surgeries shall also have at least six years of clinical working experience in aesthetic surgery departments or plastic surgery departments. The attending in-charge physician responsible for aesthetic dentistry treatment shall also have at least five years of clinical working experience in aesthetic dentistry departments or stomatology departments. The attending in-charge physician responsible for aesthetic traditional Chinese medicine treatment or aesthetic dermatological treatment shall also have at least three years of clinical working experience in traditional Chinese medicine or dermatology.

### **Classification Catalog of Aesthetic Medical Item**

The Classification Catalog of Aesthetic Medical Item (《醫療美容項目分級管理目錄》), which was promulgated by the NHFPC on 11 December 2009 and came into effect on the same date, classifies aesthetic medical services into four categories: (i) aesthetic surgery items; (ii) aesthetic dentistry items; (iii) aesthetic dermatological items and (iv) aesthetic Chinese medicine items. Provincial-level counterparts of the NHFPC may adjust the catalog based on local circumstances. In accordance with the difficulty and complexity of the surgery, the possibility of medical malpractice and the level of surgery risk, the aesthetic surgical items are divided into four grades. Surgeries which involve uncomplicated operation process, less technical difficulty and risk shall be classified as grade 1. Surgeries which involve general complexity of operation process, certain technical difficulty and risk, as well as requiring the use of epidural space block anesthesia and intravenous anesthesia, shall be classified as grade 2. Surgeries involving relatively high complexity of operation process, relatively huge technical difficulties and risk, as well as requiring the preoperative blood preparation and tracheal intubation for general anesthesia, shall be classified as grade 3. If highly complicated operation process needed and huge technical difficulty and high risk involved, the surgeries shall be classified as grade 4.

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

The Basic Standard for Aesthetic Medical Institution and Aesthetic Medical Department (For Trial Implementation) (《美容醫療機構、醫療美容科(室)基本標準(試行)》), which was promulgated by the NHFPC on 16 April 2002 and came into effect on the same date, specifies basic standards that aesthetic medical hospitals, aesthetic medical out-patient departments, aesthetic medical clinics and aesthetic medical departments should meet, such as the number of beds, clinical departments and medical personnel. Certain basic standards for each type of aesthetic medical institutions and aesthetic medical specialty department are set forth below:

- (i) For an aesthetic medical hospital, it should be equipped with, among others, (a) more than 20 hospital beds, more than 12 aesthetic treatment beds and more than four dentistry complex therapy chairs; (b) clinical departments including aesthetic treatment consultation room, aesthetic surgery, aesthetic dentistry, aesthetic dermatology, aesthetic traditional Chinese medicine, aesthetic treatment room and anesthesiology at least and (c) at least 1.03 relevant health technicians for each bed (chair), 0.4 nurse for each bed (chair), six doctors of associate-chief level and above with relevant specialties, two nurses with nurse-in-charge title and above and one attending doctor with specialty for each department.
- (ii) For an aesthetic medical out-patient department, it should be equipped with, among others, (a) at least four aesthetic treatment beds, two operation tables, two dentistry complex therapy chairs and two observation beds; (b) clinical departments including aesthetic treatment consultation room, aesthetic surgery, aesthetic dentistry and aesthetic dermatology at least (and it is allowed to have aesthetic traditional Chinese medicine department and aesthetic treatment rooms) and (c) at least 2.4 relevant health technicians for each operation table, 1.03

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relevant health technicians and 0.4 nurse for each observation bed and dentistry complex therapy chair, five registered doctors including at least one doctor of associate-chief level and above with relevant specialties and one registered nurse, and one attending doctor with specialty for each department.

- (iii) For an aesthetic medical clinic, it should be equipped with, among others, (a) at least two aesthetic treatment beds, or one operation table and one observation bed or one dentistry complex therapy chair; (b) no more than two clinical departments among departments of aesthetic surgery, aesthetic dermatology, aesthetic dentistry and aesthetic traditional Chinese medicine and (c) at least one attending doctor with specialty and one nurse for each department.
- (iv) For an aesthetic medical department, it should be equipped with, among others, (a) at least four aesthetic treatment beds, one operation table, one dentistry complex therapy chair and one observation bed; (b) clinical departments including aesthetic treatment consultation room and aesthetic treatment room, and at least two clinical departments among departments of aesthetic surgery, aesthetic dermatology, aesthetic dentistry and aesthetic traditional Chinese medicine and (c) at least 2.4 relevant health technicians for each operation table, 1.03 relevant health technicians and 0.4 nurse for each observation bed and dentistry complex therapy chair, one attending doctor with specialty and one registered nurse for each department.

### **RULES ON THE SUPERVISION OVER PHARMACEUTICALS IN MEDICAL INSTITUTIONS**

#### **Drug Control Law of PRC and its Implementing Rules' and Measures for Supervision and Administration of Drugs of Medical Institutions (For Trial Implementation)**

According to Drug Control Law of PRC (《中華人民共和國藥品管理法》), which was promulgated by SCNPC on 20 September 1984 and amended on 28 February 2001, 28 December 2013, 24 April 2015 and 26 August 2019, respectively, Regulations for the Implementation of the Drug Administration Law (《中華人民共和國藥品管理法實施條例》), which was promulgated by State Council on 4 August 2002, came into effect on 15 September 2002 and amended on 6 February 2016 and 2 March 2019, respectively, and Measures for Supervision and Administration of Drugs of Medical Institutions (For Trial Implementation) (《醫療機構藥品監督管理辦法(試行)》), which was promulgated by China Food and Drug Administration and came into effect on 11 October 2011, medical institutions must purchase drugs from enterprises qualified to produce and deal in drugs. Drugs used by medical institutions must be purchased uniformly by special departments in accordance with the provisions, and other departments and medical staff members of medical institutions are forbidden to purchase drugs on their own.

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### **The Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances**

The Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances (《麻醉藥品和精神藥品管理條例》), which were promulgated by the State Council on 3 August 2005 and revised on 7 December 2013 and 6 February 2016, respectively, provide that, where a healthcare institution needs to use any narcotic pharmaceutical or Class I psychotropic substance, it shall, upon approval by the competent public health department, obtain the Medical Seal Card for the Purchase and Use of Narcotic Pharmaceuticals and Class I Psychotropic Substances (麻醉藥品、第一類精神藥品購用印鑒卡). Healthcare institutions shall provide training and examination in relation to the usage of narcotic pharmaceuticals and psychotropic substance to its qualified physicians, who shall pass such examination before being granted prescription right by healthcare institution. If a healthcare institution with a Pharmaceutical Preparation Certificate for Healthcare institutions (醫療機構制劑許可證) and a seal card needs to dispense for clinical use any narcotic pharmaceutical or psychotropic substance which is not available on the market, the preparation shall be subject to approval by the competent provincial, regional or municipal pharmaceutical regulatory department where the healthcare institution is located. The pharmaceutical preparations of a narcotic pharmaceutical or psychotropic substance dispensed by the healthcare institution may only be used in the institution itself and may not be marketed.

### **Administrative Measures of Prescriptions**

According to the Administrative Measures of Prescriptions (《處方管理辦法》), which was promulgated by the Ministry of Health on 14 February 2007 and came into effect on 1 May 2007, a physician is entitled to issue prescriptions at his registered practice location. A prescription issued by an assistant medical practitioner in a medical institution is valid only if such prescription is signed by or affixed with the personal chop of a physician at such practice location. A prescription issued by a probation practitioner in a medical institution is valid only if such prescription is reviewed and signed by or affixed with the personal chop of a physician entitled to issue prescriptions in such medical institution. Personnel without qualification of issuing prescriptions are not allowed to issue prescriptions, in particular, medical institutions shall provide training and examination in relation to the usage of narcotic pharmaceuticals and psychotropic substance to its qualified physicians, who shall pass such examination before being granted prescription issue right by medical institution.

### **The Measures for the Classification and Administration of Prescription Pharmaceuticals and Non-prescription Pharmaceuticals (For Trial Implementation)**

The Measures for the Classification and Administration of Prescription Pharmaceuticals and Non-prescription Pharmaceuticals (For Trial Implementation) (《處方藥與非處方藥分類管理辦法(試行)》), which were promulgated by CFDA on 18 June 1999 and came into effect on 1 January 2000, set forth different systems for the control over prescription and non-prescription drugs. Prescription pharmaceuticals can only be dispensed, purchased and used after acquiring prescriptions dispensed by licensed physicians or licensed associate physicians. Non-prescription pharmaceuticals can be

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purchased and used at discretion without acquiring prescriptions dispensed by licensed physicians or licensed associate physicians. Medical institutions can decide or recommend the use of non-prescription pharmaceuticals with regard to medical necessary.

### **RULES ON MEDICAL EQUIPMENT AND TREATMENT PROVIDED BY MEDICAL INSTITUTIONS**

#### **Administrative Measures on the Radiotherapy**

According to the Administrative Measures on the Radiotherapy (《放射診療管理規定》), which were promulgated by the NHFPC on 24 January 2006, came into effect on 1 March 2006 and amended on 19 January 2016, medical institutions engaged in the radiodiagnosis and radiotherapy shall be equipped with the conditions required for conducting radiodiagnosis and radiotherapy, and apply for the License for Radiotherapy (放射診療許可證) issued by the competent public health administrative authorities. After obtaining the License for Radiotherapy, medical institution shall undertake registration of the relevant diagnosis and treatment subject with health administrative and registration authorities, which issued the Practice Permits for Medical Institutions. Medical institutions shall not conduct radiodiagnosis and radiotherapy if failing in obtaining License for Radiotherapy or not registering the diagnosis and treatment subject. During the course of radiotherapy, healthcare institutions shall take protective measures in accordance with the relevant laws and regulations.

#### **Regulations on Safety and Protection of Radioisotopes and Radiation-emitting Devices' and Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment**

According to Regulations on Safety and Protection of Radioisotopes and Radiation-emitting Devices (《放射性同位素與射線裝置安全和防護條例》), which were promulgated by the State Council on 14 September 2005, came into effect on 1 December 2005 and revised on 29 July 2014 and 2 March 2019, respectively, and Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment (《放射性同位素與射線裝置安全許可管理辦法》), which were promulgated by Ministry of Environmental Protection on 18 January 2006 and revised on 21 November 2008 and 12 December 2017 stipulate that any entity engaging in the production, sale or use of radioisotopes or radiation-emitting devices of different categories shall obtain a License for Safe Radiation (輻射安全許可證). In addition, healthcare institutions using radioisotopes or radiation-emitting devices for diagnosis and treatment shall obtain a license for diagnostic and therapeutic technique with radioactive sources and medical radiation.

### **LAWS AND REGULATIONS ON MEDICAL PERSONNEL OF HEALTHCARE INSTITUTIONS**

#### **The Law on Medical Practitioners of the PRC**

The Law on Medical Practitioners of the PRC (《中華人民共和國執業醫師法》), which was promulgated by the Standing Committee of the NPC on 26 June 1998 and came into effect on 1 May 1999 and revised on 27 August 2009, provides that doctors in the PRC must



obtain qualification licenses for their medical profession. Qualified physicians must register with the relevant public health administrative authorities at or above the county level. After registration, doctors may work at healthcare institutions in their registered location in the types of jobs and within the scope of medical treatment, disease-prevention or healthcare business as provided in their registration.

### **The Notice on Issues concerning Multi-site Practice of Doctors**

On 5 November 2014, the NHFPC, the NDRC, the Ministry of Human Resources and Social Security, the State Administration of Traditional Chinese Medicine, and the China Insurance Regulatory Commission jointly issued *Several Opinions on Promoting and Standardizing Multi-Place Practice of Physicians* (《推進和規範醫師多點執業的若干意見》), and which puts forward to simplify the registration procedure of the multiple place practice and proposes the feasibility of exploring the “record management”. According to *Administrative Measures for the Registration of Medical Practitioners* (《醫師執業註冊管理辦法》), promulgated by the NHFPC on 28 February 2017, effective on 1 April 2017, medical practitioners shall obtain the Practice Certificate for Medical Practitioners (醫師執業證書) to practice upon registration. Person who fails to obtain the Practice Certificate for Medical Practitioners may not engage in medical treatment, prevention and healthcare activities. A medical practitioner who practices for multiple institutions at the same place of practice shall determine one institution as the main institution where he or she practices, and apply for registration to the administrative department of health and family planning authority approving the practice of such institution; and for other institutions where the medical practitioner is to practice, respectively apply for recordation to the administrative health and family planning authority approving the practice of such institution, and indicate the names of the institutions where he or she is to practice. If a medical practitioner practices in an additional institution not at the registered place of practice, he or she shall apply for register such addition to the administrative health and family planning authority approving the practice of such institution.

### **Administrative Measures for the Registration of Medical Practitioners**

*Administrative Measures for the Registration of Medical Practitioners* (《醫師執業註冊管理辦法》) provides that the State has established an information system for medical practitioner administration to carry out the e-registration and online administration. Upon gaining qualification license to practice as a doctor, the medical practitioners shall conduct relevant activities according to the registered area, category and scope of practice. A medical practitioner who practices for several institutions in the same place of practice shall select one of those institutions as his or her primary practice institution, and shall apply to the competent HFPC approving practice of the institution for registration; and for any other institution for which the medical practitioner intends to practice, he or she shall apply to the administrative health and family planning authority approving practice of the institution for separate registration, in which the name of the institution shall be indicated.



### **Regulations on Nurses**

The Regulations on Nurses (《護士條例》), which were promulgated by the State Council on 31 January 2008, and came into effect on 12 May 2008, and was amended on 27 March 2020, provide that a nurse must obtain a nurse's Practicing Certificate, which is valid for five years. The number of nurses on staff at a healthcare institution shall not be less than the standard number as prescribed by the public health administrative authority of the State Council.

### **RULES ON MEDICAL INCIDENTS**

#### **Tort Liability Law of PRC**

The Tort Liability Law of PRC (《中華人民共和國侵權責任法》), which was promulgated by the SCNPC on 26 December 2009 and came into effect on 1 July 2010, provides that, if a medical institution or its medical personnel are at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation. Medical institution shall be liable and pay for the damage caused by the failure of the medical personnel to fulfill their statutory obligations in the course of diagnosis and treatment. Medical institutions and their medical personnel shall protect the privacy of their patients and will be subject to tortious liabilities for any damage caused by divulging the patients' private or medical records without consent.

#### **The Regulations on Handling Medical Incidents**

The Regulations on Handling Medical Incidents (《醫療事故處理條例》), which were promulgated by the State Council on 4 April 2002 and came into effect on 1 September 2002, provide detailed provisions regarding the prevention, disposition, technical identification, administrative disposition and supervision and compensation of medical incidents. "Medical incident" means an accident caused by a medical institution or its medical personnel resulting in personal injuries to a patient due to faults in medical activities as a result of violation of the laws, administrative regulations or departmental rules on medical and health administration, or of standards or procedures for diagnosis, cure and nursing. Medical institution and the patient may, through negotiation, settle the disputes on civil liability such as the compensation for medical incidents; if they are unwilling or fail to reach settlement, the parties concerned may apply for mediation to the health administration department, or may directly bring a civil lawsuit in the people's court. The following factors shall be taken into account for determining the actual amount of compensation for medical incidents: the grade of the medical incidents; the extent of responsibility of the medical fault for the injury in the medical incidents; and the relationship between the injury in the medical incidents and the illness of the patient. Where a medical accident occur in a medical institution, health administration department may penalise the medical institution according to the grade of the medical accident and circumstances.

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Under the Regulations on Handling Medical Incidents, a medical incident can be classified into four degrees according to the seriousness of personal injuries to patients: (i) first degree medical incident (一級醫療事故): causing death or heavy disability of a patient, (ii) second degree medical incident (二級醫療事故): causing medium disability, or organ or tissue damage of a patient, thus resulting in severe dysfunction, (iii) third degree medical incident (三級醫療事故): causing minor disability, or organ or tissue damage of a patient, thus resulting in common dysfunction, and (iv) fourth degree medical incident (四級醫療事故): causing other tangible personal injuries to a patient. According to the Interim Measures for Medical Incident Appraisal (《醫療事故技術鑒定暫行辦法》) which was issued on 31 July 2002 and came into effect on 1 September 2002, liability for medical incidents can be classified into four levels: (i) complete liability (完全責任): the patient's injuries were entirely attributable to the healthcare provider's fault, (ii) primary liability (主要責任): the patient's injuries were primarily attributable to the healthcare provider's fault, with other factors playing as secondary role, (iii) secondary liability (次要責任): the patient's injuries were primarily attributable to other factors, with the healthcare provider's fault playing a secondary role, and (iv) minor liability (輕微責任): the patient's injuries were in most parts attributable to other factors, with the healthcare provider's fault playing a minor role. In practice, medical associations administered by the respective local branch of the NHFPC may also adjudicate peer liability (對等責任) which denotes a 50% liability attributable to the healthcare provider.

### REGULATIONS ON MEDICAL ADVERTISING IN THE PRC

#### **The Administrative Measures for Aesthetic Medical Services and The Advertisement Law of the People's Republic of China**

The Advertisement Law of the PRC (2018 Revision) (《中華人民共和國廣告法(2018修正)》), which was promulgated by the SCNPC on 27 October 1994, amended on 24 April 2015 and came into effect on 1 September 2015 and 26 October 2018, provides that advertisements shall not contain false statements and be deceitful or misleading to consumers. Advertisements legally required to receive censorship, including those that are relating to pharmaceuticals and medical devices, shall be reviewed by relevant authorities in accordance with relevant rules before being distributed by broadcasting, movies, television, newspapers, journals or otherwise. Any advertisement for medical treatment, pharmaceuticals or medical devices shall not contain: (i) any assertion or guarantee for efficacy and safety; (ii) any statement on cure rate or effective rate; (iii) any comparison with the efficacy and safety of other pharmaceuticals or medical devices or with other healthcare institutions; (iv) any use of endorsements or testimonials; or (v) other items as prohibited by laws and administrative regulations.

In accordance with the Administrative Measures for Aesthetic Medical Services, distributing medical advertisement shall comply with the relevant laws and regulations of the advertisement supervision.

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### **The Administrative Measures on Medical Advertisement**

The Administrative Measures on Medical Advertisement (《醫療廣告管理辦法》), which were jointly promulgated by the State Administration of Industry and Commerce and the NHFPC on 10 November 2006 and came into effect on 1 January 2007, require that medical advertisements shall be reviewed by relevant health authorities and obtain a Medical Advertisement Review Certificate (醫療廣告審查證明) before they may be released by a healthcare institution. Medical Advertisement Review Certificate has an effective term of one year and may be renewed upon application.

### **LAWS AND REGULATIONS ON PRICES OF MEDICAL SERVICES AND MEDICINE**

#### **The Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Healthcare institutions**

According to the Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Healthcare Institutions (《關於非公立醫療機構醫療服務實行市場調節價有關問題的通知》) promulgated and implemented on 25 March 2014 by the NDRC, the NHFPC and the Ministry of Human Resources and Social Security, private for-profit healthcare institutions may set their own pricing for medical services but the reasonable prices shall be formulated under the principles of fairness, lawfulness and faithfulness and maintained the relatively stable price level within a specific period. The system of explicitly specifying the price and the breakdown list of medicine costs shall be executed as required. The prices of medical services and medicine shall be displayed to the patients publicly through various means. Healthcare institutions shall take the initiative to accept social supervision.

#### **The Opinions on Promoting Drug Pricing Reform**

The Opinions on Promoting Drug Pricing Reform (《推進藥品價格改革的意見》), which were promulgated by the NDRC, NHFPC, CFDA, MOFCOM and other three departments on 4 May 2015, and came into effect on the same day, set forth that from 1 June 2015, except for narcotic drugs and Class I psychotropic drugs, the restrictions on the prices of the drugs that were subject to government pricing will be cancelled. Specifically, the prices of narcotic drugs and Class I psychotropic drugs are still subject to maximum factory prices and maximum retail prices set by the NDRC for the time being, the prices for other drugs may be determined by the manufacturers and the operators on their own on the basis of production or operation costs and market supply and demand.

### **REGULATIONS RELATING TO PROTECTION OF CUSTOMER RIGHTS**

According to the Law of PRC on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), which was issued by SCPNC on 31 October 1993 and last amended on 25 October 2013 and became effective on 15 March 2014, if business operator cannot provide goods or services as agreed under prepaid arrangement, they shall perform as requested by the customer or refund the prepaid payment and bear the interests of prepaid payment and other necessary reasonable costs paid by the customer.

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Measures for Penalties against Infringement upon Consumers' Rights (2020 Revision) (《侵害消費者權益行為處罰辦法 (2020修訂)》) promulgated by State Administration for Industry and Commerce (currently known as State Administration for Market Regulation) on 5 January 2015 and amended on 23 October 2020, provides that, business operator shall covenant with customer regarding the quantity, quality, price, term, after-sale service, liability, etc. under prepaid arrangement. If fails to provide goods or services as agreed, business operator shall perform as requested by the customer or refund the prepaid payment and bear the interests of prepaid payment and other necessary reasonable costs paid by the customer.

### **RULES ON ENVIRONMENTAL PROTECTION RELATED TO MEDICAL INSTITUTIONS**

#### **Environmental Protection Law of PRC and Other Regulations**

According to Law of PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was promulgated by the SCNPC on 11 May 1984, last revised on 27 June 2017 and came into effect on 1 January 2018 and Environmental Protection Law of PRC (《中華人民共和國環境保護法》), which was promulgated by the SCNPC on 26 December, 1989, revised on 24 April, 2014 and came into effect on 1 January 2015, the State shall implement the pollutant emission license administration system. Any enterprise or institution that directly or indirectly discharges medical sewage shall obtain the relevant pollutant discharge permit. Facilities for the prevention and control of water pollution must be designed, constructed and put into use or operation simultaneously with the central part of a construction project.

According to Law of PRC on Evaluation of Environmental Effects (《中華人民共和國環境影響評價法》), which was promulgated by the SCNPC on 28 October 2002, revised on 2 July 2016 and 29 December 2018, the State has established system of Evaluation of Environmental Effects of Construction Projects. On the basis of the extent of the effects exerted on the environment by construction projects, the State exercises, in a classified manner, control over the evaluation of the effects of construction projects on the environment. Specifically, where considerable effects may be exerted on the environment, a written report on environmental effects in which a comprehensive evaluation of the effects on the environment shall be made; where mild effects may be exerted on the environment, a statement on the effects in which an analysis or special evaluation of the effects shall be made; or where the effects on the environment are very little and therefore it is not necessary to make an evaluation of them, a registration form of environmental effects should be filled out. The document for evaluation of the environmental effects of a construction project shall, in accordance with the regulations of the State Council, be submitted by the construction unit for examination and approval to the competent administrative department for environment protection.

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According to Regulations on Administration of Environmental Protection Testing Acceptance on Completion of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by Ministry of Environmental Protection on 27 December 2001 and revised on 22 December 2010, upon the completion of a construction project, the construction unit shall apply with the competent administrative department of environmental protection for inspection and acceptance of the completed environmental protection of the construction project.

### **Regulations on the Management of Medical Waste, the Implementation Measures of the Management of Medical Waste**

According to the Regulations on the Management of Medical Waste (《醫療廢物管理條例》), which were promulgated by the State Council on 16 June 2003 and revised on 8 January 2011, and the Measures of the Management of Medical Institution Medical Waste (《醫療衛生機構醫療廢物管理辦法》), which were promulgated by the NHFPC on 15 October 2003 and came into effect on the same day, medical or health institution shall register medical wastes, manage medical wastes under classification and undertake management of duplicate forms for transfer of hazardous waste in accordance with the Catalogue of Classified Medical Wastes, and deliver medical wastes to a unit for centralized disposal of medical wastes and licensed by a relevant environment protection administrative department for dispose. Sewage generated by any health institution and excretion of its patients or suspected patients of infectious diseases shall be sterilized in strict accordance with the relevant provisions, and shall not be discharged into sewage disposal systems until the discharging standards are met.

### **The Regulations on Urban Drainage and Sewage Treatment**

The Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》), which were promulgated by the State Council on 2 October 2013 and came into effect on 1 January 2014, require that urban entities and individuals shall dispose sewage through urban drainage facilities covering their geographical area in accordance with relevant rules. Companies or other entities engaging in medical activities shall apply for a Sewage Disposal Drainage License (污水排入排水管網許可證) before disposing sewage into urban drainage facilities. Sewage-disposing entities and individuals shall pay sewage treatment fee in accordance with relevant rules.

### **The Measures for the Administration of Permits for the Discharge of Urban Sewage into Drainage Network**

The Measures for the Administration of Permits for the Discharge of Urban Sewage into Drainage Network (《城鎮污水排入排水管網許可管理辦法》), which were promulgated by the Ministry of Housing and Urban-rural Development on 22 January 2015 and came into effect on 1 March 2015, provide that enterprises engaging in industry, construction, catering industry, medical industry and discharging sewage into the urban drainage network must apply for and obtain a License for Urban Drainage.



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### **Catalog of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (2019 Edition)**

Catalog of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (《固定污染源排污許可分類管理名錄(2019年版)》), which was promulgated by the Ministry of Environmental Protection on 20 December 2019 and came into effect on the same date, provides that existing enterprises, public institutions and other production operators shall apply for pollutant discharge permits or file pollutant discharge registration form in accordance with this catalog within the time limit of implementation.

### **REGULATIONS ON FIRE PREVENTION**

#### **Fire Prevention Law**

According to The Fire Prevention Law of the PRC (the “**Fire Prevention Law**”, 《中華人民共和國消防法》), which was promulgated by the SCNPC on 29 April 1998 and amended on 28 October 2008 and 23 April 2019, the Ministry of Public Security and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards. For a construction project that needs a fire prevention design under the national fire protection technical standards for project construction, the construction entity must submit the fire prevention design documents to the fire prevention department of the public security authority for approval or filing purposes.

Upon completion of a construction project to which a fire prevention design has been applied, according to the requirements of the Fire Prevention Law, such project must go through an acceptance check on fire prevention by, or filed with, the relevant fire prevention departments of public security authorities. For each public assembly venue, the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety inspection on fire prevention with the relevant fire prevention department under the public security authority at or above the county level where the venue is located. Such place cannot be put into use and operation if it fails to pass the safety inspection on fire prevention or fails to conform to the safety requirement for fire prevention after such inspection.

### **POLICY REGARDING ANTI-CORRUPTION AND ANTI-COMMERCIAL BRIBERY**

The governmental departments of the PRC have formulated the relevant laws and regulations for standardising the anti-corruption and anti-commercial bribery in medical treatment and health industry. In accordance with the Code of Conduct for Practitioners in Healthcare Institutions (《醫療機構從業人員行為規範》), which was promulgated by jointly by the NHFPC, the CFDA and the State Administration of Traditional Chinese Medicine on 26 June 2012, the practitioners in healthcare institutions should perform their duties honestly, be self-disciplined and abide by medical ethics. They develop and expand medical ethics. They are strictly self-disciplined and do not ask for or illegally receive any property from patients. They do not make improper benefits by utilizing the convenience of their



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positions. They do not receive such rebates or commissions, in various form or titles, offered by personnel in production or operating an enterprise in respect of medical equipment and machinery, pharmaceuticals, chemical agents and others. They do not participate in such operational entertainment arranged, organized or paid by such personnel. They do not gain or acquire the basic medical protection fund by cheating, or they do not provide others with convenience for cheating or acquiring. They do not violate the laws by participating in advertisement for medical treatment and marketing and promotion of pharmaceuticals and machinery for medical treatment. They do not resell the registration number for treatment at a profit.

The Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) passed by SCNPC on 2 September 1993 and last amended and came into effect on 23 April 2019, provides certain measures to prevent unfair competition and protect market order, which includes, among others, prohibiting improper prize sale, dumping to crowd out market competitors. Pursuant to which, the business operator shall not bribe any staff of the counterparty, any entity or personnel that entrusted by the counterparty, or influence the entity or personnel of the counterparty using its power, for business opportunity or competitive edge. The regulatory authority may confiscate the income and impose a fine of more than RMB100,000 and less than RMB3 million depending on the seriousness, and revoke the business license in serious case.

On 8 May 2019, nine national authorities, including National Health Commission of the PRC, State Administration for Market Regulation, MOFCOM, National Healthcare Security Administration, etc., jointly issued Key Points on Correcting the Malpractices in Purchase and Sale of Medicine and Medical Service in 2019 (《2019年糾正醫藥購銷領域和醫療服務中不正之風工作要點》), stipulates, among others, that the inspection of invoice issued by medical institution shall be strengthened and severely punish the illegal activities such as commercial bribery to protect the market order.

### RULES ON FOREIGN INVESTMENT

#### **The Catalogue for the Guidance of Foreign Investment Industries and The Special Administrative Measures (Negative List) for the Access of Foreign Investment**

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) (the “**Catalogue**”), which was amended from time to time. The Catalogue promulgated by the MOFCOM and the NDRC on 28 June 2017 and became effective on 28 July 2017 (the “**2017 Catalogue**”), contains specific provisions guiding market access of foreign capital and stipulates in detail the areas of entry pertaining to the categories of encouraged foreign investment industries, restricted foreign investment industries and prohibited foreign investment industries. The latter two categories are included in the negative list, which was first introduced into the 2017 Catalogue, and listed, in a unified manner, the restrictive measures for the entry of foreign investment.

The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》) (the “**2018 Negative List**”), jointly promulgated by the NDRC and MOFCOM on 28 June 2018, and

came into effect on 28 July 2018, stipulate that foreign investors may not invest in prohibited foreign investment industries as provided by the 2018 Negative List, and a foreign investment permission must be obtained prior to investing in other areas that are listed on but not prohibited by the 2018 Negative List. The Catalogue of Industries in which Foreign Investment is Encouraged (2019 Revision) (《鼓勵外商投資產業目錄(2019年版)》) (the “**2019 Catalogue**”), and the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (《外商投資准入特別管理措施(負面清單)(2019年版)》) (the “**2019 Negative List**”), which were issued on 30 June 2019 and came into effect on 30 July 2019, have replaced the 2017 Catalogue and the 2018 Negative List. The 2019 Negative List was further replaced by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**2020 Negative List**”) issued on 23 June 2020 and became effective on 23 July 2020. According to the 2020 Negative List, medical institutions industries were restricted and limited to Sino-foreign equity joint venture operations.

### **Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions and its Supplementary Provisions**

According to Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions (《中外合資、合作醫療機構管理暫行辦法》), foreign investors are allowed to partner with Chinese medical institutions, companies, enterprises and other entities to establish a medical institution in China by means of equity joint venture or cooperative joint venture. Establishment of an equity joint venture or cooperative joint venture shall meet certain requirements, including that the total investment sum must not be less than RMB20 million and that the equity percentage of the Chinese partner in the joint venture shall not be less than 30%. Establishment of an equity joint venture or cooperative joint venture shall be subject to approval by relevant authorities.

Supplementary Provisions of Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions (《〈中外合資、合作醫療機構管理暫行辦法〉的補充規定》), which were jointly promulgated by the MOFCOM and the NHFPC on 30 December 2007 and came into effect on 1 January 2008 stipulate that the total investment by a Hong Kong or Macau service provider in establishing an equity or cooperative medical institution in China shall not be less than RMB10 million. Hong Kong and Macau service providers shall comply with the Closer Economic Partnership Arrangement between Mainland China and Hong Kong and Arrangement regarding Establishing Closer Economic Partnership between Mainland China and Macau, respectively.

Supplementary Provisions II to the Interim Measures for the Administration of Sino-foreign Equity Joint Venture Medical Institutions and Sino-foreign Contractual Joint Venture Medical Institutions (《〈中外合資、合作醫療機構管理暫行辦法〉的補充規定二》) which were joint promulgated by the MOFCOM and the NHFPC on 7 December 2008 and came into effect on 1 January 2009, stipulate that service provider from Hong Kong and Macao may establish solely funded medical clinics in Guangdong Province and no ceiling is set for the total investment in individual medical clinics. No limit is set for the total

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investment in medical clinics established in Guangdong Province by service providers from Hong Kong and Macao and the mainland partners in the form of equity joint venture and contractual joint venture, and no limit is set on the contribution ratios of the Hong Kong/Macao side and the mainland side.

### **Opinions on Further Encouraging and Guiding Social Capital in Setup of Medical Facilities**

According to the Opinions on Further Encouraging and Guiding Social Capital in Setup of Medical Facilities (《關於進一步鼓勵和引導社會資本舉辦醫療機構意見》) which was issued by the General Office of State Council and became effective on 26 November 2010, overseas medical facilities, enterprises and other economic organizations are permitted to establish medical facilities together with domestic medical facilities, enterprises or other economic organizations in the form of equity or cooperation joint venture, and the restrictions on equity proportion for overseas capital will be gradually removed.

### **LAWS AND REGULATIONS REGARDING WHOLLY FOREIGN-OWNED ENTERPRISE**

The NPC issued Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) on 15 March 2019, the State Council issued Regulation on the Implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) on 26 December 2019, both of which came into effect on 1 January 2020 and replace the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法》) and their relevant implementation measures or detailed rules, and became the legal foundation for foreign investment in the PRC.

On 28 December 2019, the State Administration for Market Regulation promulgated Notice on Implementation of Foreign Investment Law and Enhancing the Registration of Foreign Investment Enterprise (《關於貫徹落實〈外商投資法〉做好外商投資企業登記註冊工作的通知》) which also came into effect on 1 January 2020. Pursuant to which, a foreign investor shall undertake whether it is in compliance with the 2020 Negative List when applying for establishment or change of foreign investment enterprise. The registration authority could proceed for registration if a foreign investor or foreign investment enterprise invests in a sector which does not fall within the 2020 Negative List, and could register if the foreign investor or foreign investment enterprise fulfill the special criteria for restricted business. Foreign investor or foreign investment enterprise is forbidden to invest in the industry which is prohibited by the 2020 Negative List.

On 1 January 2020, the Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》) which was jointly issued by MOFCOM and State Administration for Market Regulation came into effect. It sets out the prescribed procedures for the establishment and modifications of foreign-invested enterprise to be registered or filed with delegated commerce authorities through enterprise registration system and specifies the procedures and requirements for online submission in detail.

### RULES REGARDING FOREIGN EXCHANGE

#### Foreign Exchange Administration Regulations of the PRC

Pursuant to the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》), as amended on 5 August 2008, Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless prior approval is obtained from SAFE and prior registration with SAFE is made.

#### Dividend Distribution

The principal regulation governing distribution of dividends of foreign-invested enterprises is PRC Company Law (《中華人民共和國公司法》). Under PRC Company Law, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. Wholly foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

#### Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 37”) on 4 July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

### LAWS AND REGULATIONS REGARDING LABOUR PROTECTION

#### The Labour Law of the People's Republic of China

The Labour Law of the People's Republic of China (《中華人民共和國勞動法》), which was promulgated by the SCNPC on 5 July 1994, came into effect on 1 January 1995, and was amended on 27 August 2009 and 29 December 2018, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labour safety and health systems, stringently

implement national protocols and standards on labour safety and health, conduct labour safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection equipment that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer must develop a vocational training system. Vocational training funds must be set aside and used in accordance with national regulations and vocational training for workers must be carried out systematically based on the actual conditions of the company.

### **The Labour Contract Law of the People's Republic of China and its implementation regulations**

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012 and came into effect on 1 July 2013, and the Implementation Regulations on Labour Contract Law (《勞動合同法實施條例》) which were promulgated on 18 September 2008 and came into effect on the same day, regulate employer and the employee relations and contain specific provisions involving the terms of the labour contract. Labour contracts must be made in writing and may, after reaching agreement upon due negotiations, be for a fixed-term, an un-fixed term, or conclude upon the completion of certain work assignments. An employer may legally terminate a labour contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

### **The Laws and Regulations on Social Security Insurance and Housing Provident Funds**

According to applicable laws and regulations, including the Law on Social Insurance of PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on 28 October 2010 and came into effect on 1 July 2011 and revised on 29 December 2018, the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which were promulgated by the State Council and came into effective on 3 April 1999, and amended on 24 March 2002 and 24 March 2019, workers shall participate in basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance and shall pay and deposit housing provident funds. An employing entity shall undertake social insurance registration and registration of payment and deposit of the housing provident fund; shall pay work-related injury insurance premiums and maternity insurance premiums, and shall pay and deposit housing provident funds for workers. The basic pension insurance premiums, basic medical insurance premiums and unemployment insurance premiums shall be paid jointly by the employing entities and the workers. If an employing entity does not pay the full amount of social insurance premiums and housing provident funds as scheduled, it may be ordered to make the payment or make up the difference within the stipulated period and imposed a fine of the overdue payment.



### **Labour Dispatch**

The Ministry of Human Resources and Social Security promulgated the Interim Provisions on Labour Dispatch (《勞務派遣暫行規定》) on 24 January 2014. The Interim Provisions on Labour Dispatch, which became effective on 1 March, 2014, states that labour dispatch should only be applicable to temporary, auxiliary or substitute positions. For purposes of these provisions, temporary positions mean positions subsisting for no more than six months, auxiliary positions mean positions of non-major business that serve the major businesses, and substitute positions mean positions that can be held by substitute employees for a certain period of time during which the employees who originally hold such positions are unable to work as a result of full-time study, being on leave or other reasons. The Interim Provisions further provides that the number of the dispatched workers of an employer must not exceeds 10% of its total workforce, and the total workforce of an employer must refer to the sum of the number of the workers who have executed labour contracts with the employer and the number of workers who are dispatched to the employer.

### **LAWS AND REGULATIONS REGARDING TAXATION**

#### **Enterprise income tax**

According to the Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), which was promulgated by the SCNPC on 16 March 2007, came into effect on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and the Implementation Regulations on the EIT Law (《企業所得稅法實施條例》), which were promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008 and was revised on 23 April 2019, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in the PRC. These enterprises are classified as either resident enterprises or non-resident enterprises. Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not established institutions in the PRC, or if they have established institutions in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions set up by them, enterprise income tax is set at the rate of 10%.



### **Withholding tax and international tax treaties**

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) which was promulgated by State Administration of Taxation (the “SAT”) on 21 August 2006 and came into effect on 8 December 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities.

Pursuant to the Notice on the Several Issues of the Implementation of Tax Treaty (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》), which was promulgated by the SAT and came into effect on 20 February 2009, the non-resident taxpayer or the withholding agent is required to obtain and to keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

### **Business tax and Value-added tax**

The Temporary Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), which were promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, amended and effective on 19 November 2017, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》), which were promulgated by the MOF and became effective on 25 December 1993, and were amended on 18 December 2008 and 28 October 2011, provide that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in the PRC shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

### **The Collection of Value-added Tax in Lieu of Business Tax**

The Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改征增值稅試點的通知》), which were promulgated by the MOF and the SAT on 23 March 2016 and came into effect on 1 May 2016, provide that all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax. In accordance with the Implementing Measures for the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《營業稅改征增值稅試點方案》), entities and individuals engaged in sales of services, intangible assets or real property are value-added taxpayers and shall pay value-added tax rather than business tax.

### M&A RULES AND OVERSEAS LISTINGS

On August 8, 2006, six PRC regulatory agencies, including the CSRC, adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”), which became effective on 8 September 2006 and was amended on 22 June 2009. Foreign investors shall comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the assets; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of CSRC prior to publicly listing their securities on an overseas stock exchange.

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## HISTORY AND REORGANIZATION

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### OVERVIEW

Our Group's history can be traced back to August 2008, when our founder, Mr. Fu started to develop aesthetic medical business by acquiring Hangzhou Huaren Plastic Surgery Clinic Co., Ltd. (杭州華仁整形外科門診部有限公司) (currently known as Raily Tiange) as our first aesthetic medical institution. Raily Tiange mainly provided aesthetic medical services to our clients. With the growing demand of aesthetic medical services in the region, we started to expand our aesthetic medical services business by establishing Ruian Raily and Wuhu Raily outside of Hangzhou City in 2013 and 2015, respectively. In December 2017, we started providing aesthetic medical institution management consulting services to aesthetic medical institutions and physicians outside of our Group. We are now a steadily growing aesthetic medical service provider and aesthetic medical institution management consulting service provider in the PRC. As at the Latest Practicable Date, we are the owner and operator of four aesthetic medical institutions in Hangzhou City, Ruian City and Wuhu City, the PRC and a provider of aesthetic medical institution management consulting services to aesthetic medical institutions and physicians outside of our Group.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 January 2018. As part of the Reorganization and for the purpose of the Listing, our Company became the ultimate holding company of our Group with our business conducted through Raily Beauty Consultation, our indirect wholly owned subsidiary.

### OUR BUSINESS MILESTONES

The following sets out our major milestones and achievements in the business development of our Group:

Year	Event
August 2008	We acquired Hangzhou Huaren Plastic Surgery Clinic Co., Ltd. (杭州華仁整形外科門診部有限公司) (currently known as Raily Tiange) as our first aesthetic medical institution
March 2013	Our aesthetic medical business was expanded to city outside of Hangzhou City by establishing our second aesthetic medical institution, Ruian Raily in Ruian City, Zhejiang Province
August 2013	Our third aesthetic medical institution, Hangzhou Raily was established
July 2015	We established our fourth aesthetic medical institution, Wuhu Raily in Wuhu City, Anhui Province
January 2016	We were awarded the Special Merit Award (特別榮譽獎) by the CAPA

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Year	Event
December 2017	We commenced to provide aesthetic medical institution management consulting services
December 2018	Hangzhou Raily was awarded the 2018 Academic Contribution Award (2018年度學術貢獻獎) and the National A-level Advanced Unit Award (全國創建A等級先進單位獎) by the ZAPA  Hangzhou Raily was awarded the AliHealth Most Popular Medical Institution Award by AliHealth (阿里健康最受歡迎醫療機構獎)  Hangzhou Raily was awarded the Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City by Meituan (美團)
January 2019	Hangzhou Raily was rated as a 5A Aesthetic Medical Institution (5A級醫療美容醫院) in January 2019 by the CAPA
March 2019	Hangzhou Raily was awarded A Level Aesthetic Medical Institution in Zhejiang and Standardized Medical Quality Outstanding Contribution Award (浙江省醫療美容機構A等級評價規範醫療質量突出貢獻獎) by the ZAPA
2019	Hangzhou Raily was awarded the Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) by Soyoung.com (新氧)

### OUR CORPORATE HISTORY

As at the Latest Practicable Date, we had nine PRC Operating Entities, namely, Raily Beauty Consultation, Hangzhou Raily, Raily Tiange, Wuhu Raily, Ruian Raily, Ningbo Zhuerli, Raily Equipment, Guangzhou Yingjieshi and Shenzhen Ruiquan.

We set out below the corporate history and shareholding changes of our PRC Operating Entities.

#### **Raily Beauty Consultation (瑞麗美容諮詢)**

Raily Beauty Consultation was established in the PRC as a limited liability company on 10 March 2005 with an initial registered capital of RMB500,000. It is an investment holding company.

As at 1 January 2017, the commencement date of the Track Record Period, Raily Beauty Consultation had a registered capital of RMB500,000, and was directly wholly owned by Handan Guangshu, a PRC limited liability partnership owned by Mr. Fu as to 99% and by Mr. Jin Chonghai, the brother of Mr. Fu's wife, as to 1%.

On 25 June 2018, the registered capital of Raily Beauty Consultation was increased from RMB500,000 to RMB19 million, all of which was contributed by Handan Guangshu.

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## HISTORY AND REORGANIZATION

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### **Hangzhou Raily (杭州瑞麗)**

Hangzhou Raily was established in the PRC as a limited liability company on 9 August 2013 with an initial registered capital of RMB5 million. It is an aesthetic medical institution which is principally engaged in the provision of aesthetic medical services.

As at 1 January 2017, the commencement date of the Track Record Period, Hangzhou Raily had a registered capital of RMB5 million, and was directly owned by Mr. Fu as to 65% and Raily Beauty Consultation, as to 35%.

On 24 March 2017, as part of internal restructuring, Mr. Fu transferred his 45% equity interests in Hangzhou Raily to Raily Beauty Consultation at a consideration of RMB2,250,000, which was completed on the same date. The consideration represents such portion of the amount of the paid-up capital contributed by Mr. Fu. Upon such equity interests transfer, Hangzhou Raily became directly owned by Raily Beauty Consultation as to 80% and Mr. Fu as to 20%.

### **Raily Tiange (瑞麗天鵝)**

Raily Tiange was established in the PRC as a limited liability company on 28 September 2007 with an initial registered capital of RMB200,000, and was then known as Hangzhou Huaren Plastic Surgery Clinic Co., Ltd. (杭州華仁整形外科門診部有限公司). It is an aesthetic medical institution which is principally engaged in the provision of aesthetic medical services. In April 2009, Raily Tiange changed its name to Hangzhou Raily Plastic Surgery Clinic Co., Ltd. (杭州瑞麗整形外科門診部有限公司) and subsequently in April 2015, it has further changed its name to Hangzhou Raily Tiange Plastic Surgery Clinic Co., Ltd. (杭州瑞麗天鵝整形外科門診部有限公司).

As at 1 January 2017, the commencement date of the Track Record Period, Raily Tiange was directly owned by Raily Beauty Consultation as to 60% and Mr. Fu as to 40%.

### **Wuhu Raily (蕪湖瑞麗)**

Wuhu Raily was established in the PRC as a limited liability company on 3 July 2015 with an initial registered capital of RMB1 million. It is an aesthetic medical institution which is principally engaged in the provision of aesthetic medical services.

As at 1 January 2017, the commencement date of the Track Record Period, Wuhu Raily had a registered capital of RMB1 million, and was directly owned by Ms. Zhu Haiyan as to 78%, Mr. Wang Yuming as to 15% and Mr. Pan Lilai as to 7%. In order to effect administrative convenience of managing Mr. Fu's shareholdings in Wuhu Raily, on 18 October 2016, Mr. Fu and Ms. Zhu Haiyan entered into a trust agreement, pursuant to which Ms. Zhu Haiyan agreed to hold 78% equity interests of Wuhu Raily on trust for Mr. Fu. Other than the fact that Ms. Zhu Haiyan is an employee of Ruian Raily, Mr. Wang Yuming is the supervisor of Wuhu Raily and Mr. Pan Lilai is the general manager of Wuhu Raily and Raily Equipment as at the Latest Practicable Date, none of them has any other relationship with our Group, our Controlling Shareholders or any members of the Board or our senior management. On 25 February 2017, as part of internal restructuring, Ms. Zhu

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## HISTORY AND REORGANIZATION

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Haiyan entered into an equity transfer agreement with Raily Beauty Consultation, pursuant to which Ms. Zhu Haiyan transferred her 78% equity interests in Wuhu Raily to Raily Beauty Consultation at Mr. Fu's direction. The said trust arrangement between Mr. Fu and Ms. Zhu Haiyan was terminated after such transfer. Upon completion of such equity interests transfer, Wuhu Raily became directly owned by Raily Beauty Consultation as to 78%, Mr. Wang Yuming as to 15% and Mr. Pan Lilai as to 7%.

### **Ruian Raily (瑞安瑞麗)**

Ruian Raily was established in the PRC as a limited liability company on 18 March 2013 with an initial registered capital of RMB2 million. It is an aesthetic medical institution which is principally engaged in the provision of aesthetic medical services.

As at 1 January 2017, the commencement date of the Track Record Period, Ruian Raily had a registered capital of RMB2 million, and was directly owned by Mr. Fu as to 80% and Mr. Wang Ying, Mr. Fu's cousin, as to 20%. In order to effect administrative convenience of managing Mr. Fu's shareholdings in Ruian Raily, on 18 March 2013, Mr. Fu and Mr. Wang Ying entered into a trust agreement, pursuant to which Mr. Wang Ying agreed to hold 20% equity interests in Ruian Raily on trust for Mr. Fu. On 13 February 2017, as part of internal restructuring, Mr. Fu transferred 80% equity interests in Ruian Raily to Raily Beauty Consultation at a consideration of RMB1,600,000 which was completed on the same date. The consideration represented the amount of the paid-up capital contributed by Mr. Fu. On the same date, Mr. Wang Ying transferred 20% equity interests in Ruian Raily to Raily Beauty Consultation at Mr. Fu's direction. The trust arrangement between Mr. Fu and Mr. Wang Ying was terminated after such transfer. Upon completion of such equity interests transfer, Ruian Raily became directly wholly owned by Raily Beauty Consultation.

### **Ningbo Zhuerli (寧波珠兒麗)**

Ningbo Zhuerli was established in the PRC as a limited liability company on 13 April 2017 with an initial registered capital of RMB1 million. Since the establishment of Ningbo Zhuerli in 2017, there has been no shareholding change in Ningbo Zhuerli. As at the Latest Practicable Date, Ningbo Zhuerli is directly wholly owned by Raily Beauty Consultation. Ningbo Zhuerli commenced its business operation in April 2019 and has since then been principally engaged in the provision of management consulting services for aesthetic medical institutions outside of our Group.

### **Raily Equipment (瑞麗器械)**

Raily Equipment was established in the PRC as a limited liability company on 17 September 2015 with an initial registered capital of RMB1 million. As at the Latest Practicable Date, Raily Equipment acts as the investment holding company of Wuhu Raily.

As at 1 January 2017, the commencement date of the Track Record Period, Raily Equipment had a registered capital of RMB1 million, which was contributed by Mr. Fu as to 43%, Mr. Yang Yong as to 35%, Mr. Wang Yuming as to 19% and Mr. Luo Wen as to 3%. Other than the fact that Mr. Yang Yong was the supervisor of Raily Equipment from



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September 2015 till July 2019, Mr. Luo Wen was the general manager of Raily Equipment from September 2015 till June 2018 and Mr. Wang Yuming is the supervisor of Wuhu Raily as at the Latest Practicable Date, none of them has any relationship with our Group, our Controlling Shareholders or any members of the Board or our senior management. On 20 June 2018, as a part of the Reorganization, Ningbo Zhuerli acquired 43%, 35%, 19% and 3% equity interests of Raily Equipment from Mr. Fu, Mr. Yang Yong, Mr. Wang Yuming and Mr. Luo Wen, and upon completion of such equity interests transfer, Raily Equipment became directly wholly owned by Ningbo Zhuerli. Upon completion of such acquisition, our Group owns 100% equity interest of Raily Equipment and is able to start to exercise control over Raily Equipment, which then became our Group's subsidiary and was consolidated into our Group's financial results from 20 June 2018 onwards. As Raily Equipment has not commenced its business operation, it did not have any assets and liabilities before the completion of the Reorganization. Hence the business combination of Raily Equipment did not have any financial impact on our Group before 20 June 2018. Please see "Reorganization — (II) Onshore Reorganization — (v) Raily Equipment" in this section for details.

### **Guangzhou Yingjieshi (廣州英傑仕)**

Guangzhou Yingjieshi was established in the PRC as a limited liability company on 10 June 2015 with an initial registered capital of RMB2 million. It is principally engaged in the provision of management consulting services for aesthetic medical institutions and physicians outside of our Group.

As at 1 January 2017, the commencement date of the Track Record Period, it was directly owned by Mr. Zhang Ruijie as to 65%, Mr. Yu as to 20%, Ms. Zhao Xiaoni as to 5%, Mr. Fu Song as to 5% and Mr. Zhang Bo as to 5%. Other than the fact that Mr. Fu Song was the supervisor of Guangzhou Yingjieshi from June 2015 till July 2019, Mr. Zhang Ruijie was an employee of Guangzhou Yingjieshi from June 2015 to January 2020 and Mr. Yu is an executive Director of our Company as at the Latest Practicable Date, none of them has any relationship with our Group, our Controlling Shareholders or any members of the Board or our senior management. To the best knowledge of our Company, both Ms. Zhao Xiaoni and Mr. Zhang Bo are experienced personnel in the aesthetic medical institution management consulting industry. While they were shareholders of Guangzhou Yingjieshi, Ms. Zhao Xiaoni provided marketing trainings and Mr. Zhang Bo provided operational advice to Guangzhou Yingjieshi from time to time.

On 19 December 2017, in order to expand our business in the provision of aesthetic medical institution management consulting services, Raily Beauty Consultation acquired 65%, 20%, 5%, 5% and 5% equity interests of Guangzhou Yingjieshi from Mr. Zhang Ruijie, Mr. Yu, Ms. Zhao Xiaoni, Mr. Fu Song and Mr. Zhang Bo at the consideration of RMB1,625,000, RMB500,000, RMB125,000, RMB125,000 and RMB125,000, respectively. Such consideration was determined after arm's length negotiation between the parties with reference to the then net asset value of Guangzhou Yingjieshi and was settled on 22 October 2018. Upon completion of such equity interests transfer, Guangzhou Yingjieshi became directly wholly owned by Raily Beauty Consultation. The acquisition of Guangzhou Yingjieshi did not constitute a major transaction under Rule 4.05A of the Listing Rules.

## HISTORY AND REORGANIZATION

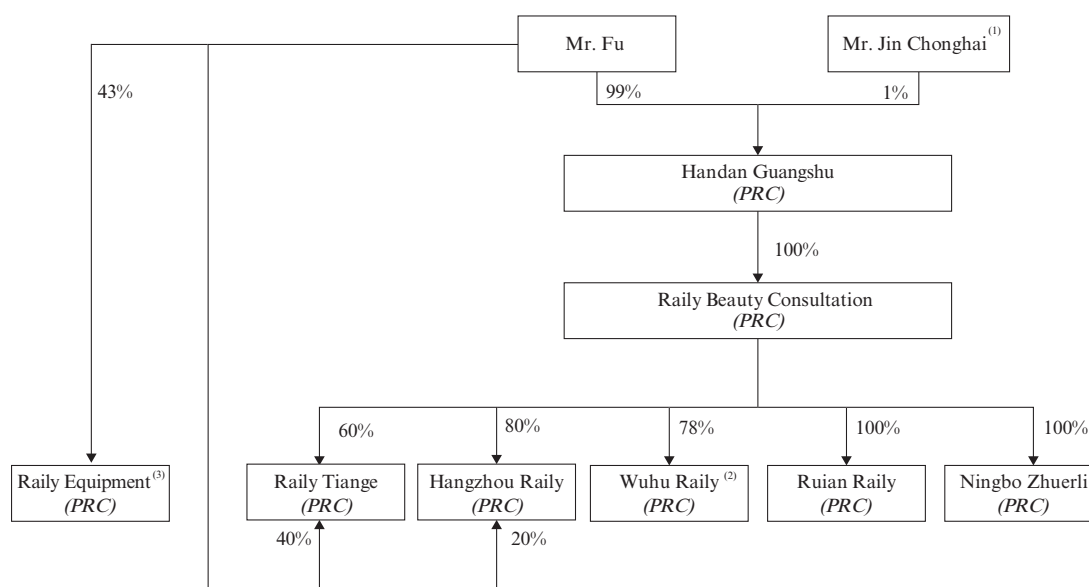
### Shenzhen Ruiquan (深圳瑞泉)

Shenzhen Ruiquan was established in the PRC as a limited liability company on 29 August 2019 with an initial registered capital of RMB10 million. As at the Latest Practicable Date, it was directly wholly owned by Raily HK. Shenzhen Ruiquan was incorporated for the provision of management consulting services and marketing and sales of medical equipment for aesthetic medical institutions outside our Group. As at the Latest Practicable Date, it had not commenced business operation.

As at the Latest Practicable Date, we had legally and properly completed, settled and obtained the requisite governmental registrations and/or approvals with the relevant governmental authorities in the PRC with respect to all the abovementioned equity transfers and registered capital increases of our PRC Operating Entities.

### REORGANIZATION

The following chart sets forth our Group's corporate and shareholding structure immediately prior to the Reorganization:



Notes:

**Note 1:** On 1 May 2016, Mr. Fu and Mr. Jin Chonghai, who is the brother of Mr. Fu's wife, entered into a trust agreement, pursuant to which Mr. Jin Chonghai agreed to hold 1% share of property of Handan Guangshu, on trust for Mr. Fu. The reason for the trust arrangement was to effect administrative convenience of managing Mr. Fu's shareholdings in Raily Beauty Consultation.

**Note 2:** The remaining 22% shareholding of Wuhu Raily is owned by Mr. Wang Yuming as to 15% and Mr. Pan Lilai as to 7%. Other than the fact that Mr. Wang Yuming is the supervisor of Wuhu Raily and Mr. Pan Lilai is the general manager of Wuhu Raily and Raily Equipment as at the Latest Practicable Date, none of them has any relationship with our Group, our Controlling Shareholders or any members of the Board or our senior management.

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## HISTORY AND REORGANIZATION

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*Note 3:* Prior to the Reorganization, the remaining 57% shareholding of Raily Equipment is owned by Mr. Yang Yong as to 35%, Mr. Wang Yuming as to 19% and Mr. Luo Wen as 3%, respectively. Other than the fact that Mr. Yang Yong was the supervisor of Raily Equipment from September 2015 till July 2019, Mr. Luo Wen was the general manager of Raily Equipment from September 2015 to June 2018 and Mr. Wang Yuming is the supervisor of Wuhu Raily as at the Latest Practicable Date, none of them has any relationship with our Group, our Controlling Shareholders or any members of the Board or our senior management.

*Note 4:* Guangzhou Yingjieshi was not part of our Group immediately prior to the Reorganization as it was only acquired by Raily Beauty Consultation and became a part of our Group on 19 December 2017.

*Note 5:* Shenzhen Ruiquan was not part of our Group immediately prior to the Reorganization as it was only established and became a part of our Group on 29 August 2019.

In preparation for the Listing and to streamline our corporate structure, we underwent the following Reorganization.

### **(I) Offshore Reorganization**

#### ***1. Incorporation of Ruide BVI***

On 24 November 2017, Ruide BVI was incorporated in the BVI with limited liability and is authorized to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00 each. On 24 November 2017, 50,000 fully-paid ordinary shares of Ruide BVI, representing the entire issued share capital of Ruide BVI were allotted and issued at par to Mr. Fu.

#### ***2. Incorporation of our Company***

On 2 January 2018, our Company was incorporated in the Cayman Islands as an exempted company with limited liability and with an authorized share capital of US\$50,000 divided into 50,000 Shares of par value of US\$1.00 each. On 2 January 2018, one fully-paid Share, representing the entire issued share capital of our Company, was allotted and issued to the initial subscriber of our Company, which was subsequently transferred to Ruide BVI on the same day. On 2 January 2018, 49,999 Shares were allotted and issued to Ruide BVI.

On 30 October 2018, the name of our Company was changed from “Raily Healthcare Holdings Limited (瑞麗健康控股有限公司)” to “Raily Medical Cosmetology Intl Holdings Co., Limited (瑞麗醫美國際控股有限公司)”, and subsequently, on 17 December 2018, to “Raily Aesthetic Medicine International Holdings Limited (瑞麗醫美國際控股有限公司)”.

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## HISTORY AND REORGANIZATION

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On 24 January 2019, written resolutions of the sole shareholder has been passed, pursuant to which, among other things:

- (i) 50,000 issued Shares of par value of US\$1.00 each in the capital of our Company were subdivided into US\$0.01 each, such that immediately following the share subdivision, the authorized share capital of our Company became US\$50,000 divided into 5,000,000 Shares of par value of US\$0.01 each;
- (ii) 4,956,500 Shares of par value of US\$0.01 each were repurchased by our Company from Ruide BVI at a purchase price of US\$49,565 and upon the completion of such share repurchase, the repurchased Shares were cancelled. Thereafter, Ruide BVI held 43,500 Shares which represents the entire issued share capital of our Company.

### ***3. Incorporation of offshore subsidiaries***

On 16 January 2018, Raily BVI was incorporated in the BVI with limited liability. Upon incorporation, 50,000 shares were allotted and issued to our Company and Raily BVI became a directly wholly owned subsidiary of our Company.

Raily HK was incorporated in Hong Kong with limited liability on 2 February 2018 with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. 10,000 ordinary shares of Raily HK, representing the entire issued share capital of Raily HK, was allotted and issued to Raily BVI on 2 February 2018 and Raily HK was directly wholly owned by Raily BVI. Raily HK is the holding company of our PRC Operating Entities.

### ***4. Subscription of new shares of Raily Beauty Consultation by Beauty Milkway***

Pursuant to the capital increase agreement dated 21 May 2018, the registered capital of Raily Beauty Consultation was increased from RMB19 million to RMB20 million through Beauty Milkway subscribing additional capital contributions. The amount of the capital increase was determined with reference to the nominal value of the registered capital of Raily Beauty Consultation. Upon completion of such capital increase, Raily Beauty Consultation became directly owned by Handan Guangshu as to 95% and Beauty Milkway as to 5%.

### ***5. Acquisition of Raily Beauty Consultation by Raily HK***

On 14 September 2018, (i) pursuant to the equity transfer agreement, Handan Guangshu transferred 2.5% equity interests in Raily Beauty Consultation to Raily HK at a consideration of RMB500,000; (ii) pursuant to the capital contribution obligation transfer agreement, Handan Guangshu transferred its obligation to contribute registered capital of RMB18.5 million to Raily HK; and (iii) Beauty Milkway transferred 5% equity interests in Raily Beauty Consultation to Raily HK for a consideration of RMB1 million. The considerations were determined with reference to the nominal value of such proportional equity interests in Raily Beauty Consultation.

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Upon completion of such equity interests transfer, Raily Beauty Consultation became directly wholly owned by Raily HK and Raily HK becomes the holding company of our PRC Operating Entities.

### **(II) Onshore Reorganization**

#### ***(i) Hangzhou Raily***

On 2 January 2018, each of Mr. Fu and Raily Beauty Consultation transferred 20% and 10% equity interests in Hangzhou Raily to Ningbo Ruixuan for a consideration of RMB1 million and RMB500,000, respectively, which were both completed on 2 January 2018. The considerations were based on the nominal value of such equity interests of Hangzhou Raily. Upon completion of such equity interests transfer, Hangzhou Raily became directly owned by Raily Beauty Consultation as to 70% and Ningbo Ruixuan as to 30%.

On 2 February 2018, the registered capital of Hangzhou Raily was increased from RMB5 million to RMB20 million through Raily Beauty Consultation and Ningbo Ruixuan subscribing additional capital contributions of RMB10,500,000 and RMB4.5 million, respectively. Upon completion of the registered capital increase, Hangzhou Raily became directly owned by Raily Beauty Consultation as to 70% and by Ningbo Ruixuan as to 30%. The amount of the capital increase was determined with reference to the nominal value of the registered capital of Hangzhou Raily.

Upon completion of such equity interests transfer and capital increase, Hangzhou Raily became directly owned by Raily Beauty Consultation as to 70% and Ningbo Ruixuan as to 30%.

#### ***(ii) Raily Tiange***

On 5 January 2018, the registered capital of Raily Tiange was increased from RMB2,500,000 to RMB3,333,300 through Raily Beauty Consultation subscribing additional capital contributions of RMB833,300. The amount of the capital increase was determined with reference to the nominal value of the registered share capital of Raily Tiange.

Upon completion of such capital increase, Raily Tiange became directly owned by Raily Beauty Consultation as to 70% and Mr. Fu as to 30%.

#### ***(iii) Wuhu Raily***

On 25 December 2017, Raily Beauty Consultation transferred 30% equity interests in Wuhu Raily to Ningbo Ruixuan at a consideration of RMB300,000 which was completed on the same date. The consideration was based on the nominal value of the registered capital of Wuhu Raily. Upon such equity interests transfer, Wuhu Raily became directly owned by Raily Beauty Consultation as to 48%, Ningbo Ruixuan as to 30%, Mr. Wang Yuming as to 15% and Mr. Pan Lilai as to 7%.

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## HISTORY AND REORGANIZATION

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To the best knowledge of our Company, on 8 May 2018, Mr. Pan Lilai entered into an equity transfer agreement with Mr. Wang Yuming, pursuant to which Mr. Pan Lilai transferred 7% equity interests in Wuhu Raily to Mr. Wang Yuming at a consideration of RMB70,000 which was determined with reference to the nominal value of the registered capital of Wuhu Raily. Upon completion of such equity interests transfer, Wuhu Raily became directly held by Raily Beauty Consultation as to 48%, Ningbo Ruixuan as to 30% and Mr. Wang Yuming as to 22%.

On 22 June 2018, Raily Beauty Consultation transferred 48% equity interests in Wuhu Raily to Raily Equipment for a consideration of RMB480,000 which was completed on the same date. The consideration was based on the nominal value of the registered capital of Wuhu Raily. Upon completion of the equity interests transfer, Wuhu Raily became directly owned by Raily Equipment as to 48%, Ningbo Ruixuan as to 30% and Mr. Wang Yuming as to 22%.

Pursuant to the shareholders' resolution dated 5 August 2019, the registered capital of Wuhu Raily was reduced from RMB1,000,000 to RMB685,800 through each of Ningbo Ruixuan and Mr. Wang Yuming reducing RMB245,100 and RMB69,100 of its respective capital contribution in Wuhu Raily. Upon completion of such capital reduction, Wuhu Raily became directly owned by Raily Equipment as to 70%, Mr. Wang Yuming as to 22% and Ningbo Ruixuan as to 8%. After capital reduction, Raily Beauty Consultation holds 70% of Wuhu Raily through the intermediate companies, namely Ningbo Zhuerli and Raily Equipment, the structure of which was mainly due to tax arrangements and the efficiency of administrative management.

### *(iv) Ruian Raily*

On 2 December 2017, the registered capital of Ruian Raily was increased from RMB2,000,000 to RMB2,857,200 through additional capital contributions of RMB857,200 made by Ningbo Ruixuan. The amount of the capital increase was determined with reference to the nominal value of the registered capital of Ruian Raily. Upon such capital increase, Ruian Raily became directly owned by Raily Beauty Consultation as to 70% and Ningbo Ruixuan as to 30%.

On 2 April 2018, the registered capital of Ruian Raily was further increased from RMB2,857,200 to RMB20 million through additional capital contributions of RMB12 million and RMB5,142,800 made by Raily Beauty Consultation and Ningbo Ruixuan, respectively. The amount of the capital increase was determined with reference to the nominal value of the capital of Ruian Raily. Upon completion of such capital increase, Ruian Raily became directly owned by Raily Beauty Consultation as to 70% and Ningbo Ruixuan as to 30%.



### ***(v) Raily Equipment***

Pursuant to the equity transfer agreement dated 20 June 2018, Ningbo Zhuerli acquired 43%, 35%, 19% and 3% equity interests of Raily Equipment from Mr. Fu, Mr. Yang Yong, Mr. Wang Yuming and Mr. Luo Wen at nil consideration. Upon completion of such equity interests transfer, Raily Equipment became directly wholly owned by Ningbo Zhuerli.

### ***1. Entering into the Contractual Arrangements to control over Hangzhou Raily, Raily Tiange and Ruian Raily***

On 1 January 2019, Raily Beauty Consultation entered into a series of agreements that constitute the Contractual Arrangements with, among others, Hangzhou Raily, Raily Tiange, Ruian Raily and their shareholders under which 30% economic benefits arising from the business of Hangzhou Raily, Raily Tiange and Ruian Raily are transferred to Raily Beauty Consultation to the extent permitted by the PRC laws and regulations. See the section headed “Contractual Arrangements” in this prospectus for further details.

### ***2. Capitalization Issue***

The authorized share capital of our Company will be increased from US\$50,000 divided in 5,000,000 Shares of par value US\$0.01 each to US\$30,000,000 divided into 3,000,000,000 Shares of par value of US\$0.01 each by creation of an additional 2,995,000,000 Shares of par value US\$0.01 each on the date immediately preceding the date on which the Global Offering become unconditional.

Subject to (i) all the Shareholders passing the necessary shareholders resolutions and (ii) the Global Offering becoming unconditional and the share premium account of our Company having sufficient balance, our Directors shall be authorized to allot and issue a total of 1,712,440,666 Shares credited as fully paid at par value to the Shareholders on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as they may direct) in proportion to their respective shareholdings in our Company (as nearly as possible without fractions) by way of capitalization of the sum of US\$17,124,406.66 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.

### **Compliance with PRC Laws and Regulations**

Our PRC Legal Advisers confirmed that the Reorganization of our PRC subsidiaries disclosed in this section has been conducted in compliance with applicable laws and regulations of the PRC and has been legally completed and the share transfer and changes in registered capital have been duly registered with local authorities of the PRC.

For certain intra-group and reorganization transactions, there may not be applicable for consideration to be settled, and completion date as stipulated in the relevant transaction contract is referred to. The relevant transactions were of an intra-group nature and were

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## HISTORY AND REORGANIZATION

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conducted solely for internal reorganization purposes, and therefore our Directors do not consider that the inapplicability of settlement date would have any material impact on our Group as well as the validity and completion of our Reorganization. Despite the inapplicability of settlement date, such transactions remain legally completed and would not be legally reversible or otherwise deemed legally defective.

### **PRE-IPO INVESTMENT**

#### **Equity transfers by existing shareholder to the Pre-IPO Investors**

On 29 April 2019, Ruide BVI transferred 2,967, 1,125 and 974 Shares in our Company to Success Concept, Mr. Cheng Lei Jack and Beauty Milkway at a consideration of RMB8,575,000, RMB10,125,000 and RMB8,763,600, respectively.

#### **Subscription of new Shares by the Pre-IPO Investors**

On 24 January 2019, Beauty Milkway and Youxin Management subscribed 3,500 and 3,000 new ordinary Shares in our Company at a consideration of RMB1,400,000 and RMB1,200,000, respectively.

On 30 April 2019, Huamei Medical, Shanghai Donghua and Shanghai Paibo subscribed 3,889, 3,889 and 1,556 new ordinary Shares in our Company at a consideration of RMB35,000,000, RMB35,000,000 and RMB14,000,000, respectively.

See “Principal Terms of the Pre-IPO Investments” below for further details of our Pre-IPO Investments.

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### Principal Terms of the Pre-IPO Investments

The table below sets out the key particulars of the Pre-IPO Investments

Name of Pre-IPO Investor	Success Concept	Youxin Management	Beauty Milkway	Mr. Cheng Lei Jack	Huamei Medical	Shanghai Paibo	Shanghai Donghua
Date of investment Agreement	15 August 2018	24 January 2019	24 January 2019 by share subscription agreement  28 February 2019 by share purchase agreement	28 February 2019	15 April 2019	18 April 2019	18 April 2019
Number of shares subscribed for or acquired	Acquired 2,967 Shares from Ruide BVI	Subscribed 3,000 Shares in our Company	Subscribed 3,500 Shares in our Company  Acquired 974 Shares from Ruide BVI	Acquired 1,125 Shares from Ruide BVI	Subscribed 3,889 Shares in our Company	Subscribed 1,556 Shares in our Company	Subscribed 3,889 Shares in our Company
Amount of consideration paid	RMB8,575,000 for the Shares acquired from Ruide BVI	RMB1,200,000 for the Shares subscribed	RMB1,400,000 for the Shares subscribed  RMB8,763,600 for the Shares acquired from Ruide BVI	RMB10,125,000 for the Shares acquired from Ruide BVI	RMB35,000,000 for the Shares subscribed	RMB14,000,000 for the Shares subscribed	RMB35,000,000 for the Shares subscribed
Settlement date of the consideration	1 February 2019	6 May 2019	The consideration for the subscription was settled on 21 February 2019  The consideration for the acquisition was settled on 6 May 2019	3 May 2019	19 April 2019	29 April 2019	29 April 2019
Source of fund	Personal fund sourced from funds borrowed from a licensed finance company which is an Independent Third Party by Mr. Chan Ka Pok, the beneficial owner of Success Concept	Personal fund sourced from income generated from previous employments and personal savings of Mr. Li Wai Chung, the beneficial owner of Youxin Management	Personal fund sourced from the income and personal savings of Mr. Li Xuguang, the beneficial owner of Beauty Milkway	Personal fund sourced from profits generated by the hospital business owned by Mr. Cheng Lei Jack	Investment capital managed by Wonderland International Financial Holdings Limited, a fellow subsidiary of Wonderland Financial Holdings, which directly holds 100% equity interest in Huamei Medical	Investment capital sourced from the funds contributed by 13 Independent Third Parties, being the individual limited partners of Hangzhou Zhongye, which directly holds 99.7% equity interest in Shanghai Paibo	Investment capital sourced from the investment pool of Dongfang Fund, which directly holds 99.81% equity interest in Shanghai Donghua

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Approximate cost per Share paid by the Pre-IPO Investors and discount to the Offer Price <sup>(1)</sup>	The cost per Share was RMB0.10 and is equivalent to an approximately 71.4% discount to an Offer Price of HK\$0.35, being the mid-point of the Offer Price range.	The cost per Share was RMB0.01 and is equivalent to an approximately 96.0% discount to an Offer Price of HK\$0.35, being the mid-point of the Offer Price range.	The cost per Share was approximately RMB0.14 for the Shares newly subscribed and the cost per Share was RMB0.31 for the Shares acquired from Ruide BVI and is equivalent to an approximately 60.4% and 10.9%, respectively, discount to an Offer Price of HK\$0.35, being the mid-point of the Offer Price range.	The cost per Share was RMB0.31 and is equivalent to an approximately 10.9% discount to an Offer Price of HK\$0.35, being the mid-point of the Offer Price range.	The cost per Share was RMB0.31 and is equivalent to an approximately 10.9% discount to an Offer Price of HK\$0.35, being the mid-point of the Offer Price range.	The cost per Share was RMB0.31 and is equivalent to an approximately 10.9% discount to an Offer Price of HK\$0.35, being the mid-point of the Offer Price range.
<b>Number of Shares and approximate percentage of shareholding upon Listing<sup>(2)</sup></b>	85,633,658 Shares, representing approximately 4.17% of the issued share capital of our Company upon Listing	86,586,104 Shares, representing approximately 4.21% of the issued share capital of our Company upon Listing	129,128,745 Shares, representing approximately 6.28% of the issued share capital of our Company upon Listing	32,469,792 Shares, representing approximately 1.58% of the issued share capital of our Company upon Listing	112,244,454 Shares, representing approximately 5.46% of the issued share capital of our Company upon Listing	44,909,330 Shares, representing approximately 2.19% of the issued share capital of our Company upon Listing

*Note:*

- (1) Assuming the Offer Price is fixed at HK\$0.35, being the mid-point of the indicative Offer Price range, and based on the number of shares in issue upon the completion of the Capitalization Issue and before the Global Offering assuming the Over-allotment Option is not exercised
- (2) The number of Shares to be held by each of the Pre-IPO Investors and approximate percentage of their respective shareholding upon Listing were based on the assumption that the Capitalization Issue and the Global Offering has been completed assuming the Over-allotment Option is not exercised.

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## HISTORY AND REORGANIZATION

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### Information regarding the Pre-IPO Investors

Success Concept was incorporated in the BVI with limited liability on 10 December 2018 and is wholly owned by Mr. Chan Ka Pok who is an Independent Third Party. Success Concept is an investment holding company. Mr. Chan Ka Pok is an individual private investor who participates in various investment opportunities in different target companies encompassing various business sectors. He was acquainted with Mr. Fu through referral by their mutual friend, Mr. Li Xuguang, in a business conference in Hong Kong in 2018.

Beauty Milkway is a company incorporated in Hong Kong with limited liability on 6 June 2018 and is wholly owned by Mr. Li Xuguang who is an Independent Third Party. Beauty Milkway is an investment holding company and is considered as a strategic investor to our Group. Mr. Li Xuguang has experience working in the aesthetic medical industry. He was the non-executive director of China Health Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0673). He gained acquaintance with Mr. Fu through participation in a business conference in Hangzhou, the PRC in 2016.

Youxin Management is a company incorporated in the BVI with limited liability on 18 July 2018. It is wholly owned by Mr. Li Wai Chung who is an Independent Third Party. Youxin Management is an investment holding company and is considered as a strategic investor to our Group. Mr. Li Wai Chung has experience working in the finance industry and has been working in Shenzhen Youxin Consultancy Management Co., Ltd. (深圳友信顧問管理有限公司) as a finance consultant since June 2018 up to the Latest Practicable Date. He gained acquaintance with Mr. Fu through referral by their mutual friend, an Independent Third Party who was the vice president of the Investment Sub-committee of CAPA, in August 2017.

Mr. Cheng Lei Jack is an individual private investor and a owner of a hospital in the United States who is an Independent Third Party. He gained acquaintance with Mr. Fu through referral by Mr. Song Jianliang in a medical conference hosted by CAPA in 2015.

Shanghai Donghua is a limited partnership organized and existing under the laws of the PRC on 15 October 2018, the principal business of which includes provision of nutrition and health consultancy and business information consultancy services. As of the Latest Practicable Date, the assets managed by Shanghai Donghua amounted to approximately RMB35.0 million, which were primarily utilized as pre-IPO investment in our Company. Shanghai Donghua is directly owned by Qinghai Dongfang Tibetan Medicine Industry Development Fund (Limited Liability Partnership) (青海省東方藏醫藥產業發展基金(有限合夥)) (“**Dongfang Fund**”) as to 99.81% and Qinghai Dongfang Tibetan Medicine Industry Investment Management Co., Ltd. (青海省東方藏醫藥產業投資管理有限公司) (“**Dongfang Ltd.**”) as to 0.19%. Dongfang Fund is a limited liability partnership with an investment pool of approximately RMB205 million which has primarily focused on investing in companies in medical, pharmaceutical and healthcare industries. According to the best knowledge of our Directors and based on public information, Dongfang Fund holds the investment assets, including investment in Qinghai Jingzhu Tibetan Medicine High and New Tech Co., Ltd. (青海晶珠藏藥高新技術產業股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 838410) and is primarily engaged

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## HISTORY AND REORGANIZATION

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in pharmaceutical and healthcare industry. Dongfang Ltd., the general partner of Shanghai Donghua, is a limited liability company primarily engaged in the provision of investment management and fund management services. Both Dongfang Fund and Dongfang Ltd are controlled by China Orient Asset Management Co., Ltd (中國東方資產管理股份有限公司) (“**China Orient**”), a limited liability company with business covering asset management, insurance, banking, securities, credit ratings and overseas operations. China Orient is held by Ministry of Finance of the PRC, State Council, National Council for Social Security Fund of the PRC and Shanghai Electric Group Company Limited (a company listed on the Main Board of the Shanghai Stock Exchange (stock code: 601727) and the Main Board of the Stock Exchange (stock code: 2727)), each being an Independent Third Party, as to 79.5%, 10.0%, 8.4% and 2.0%, respectively. The director and general manager of Dongfang Ltd., Ms. Fan Qirui had acquainted to Mr. Fu through referral by their mutual friend, an Independent Third Party who was the vice president of the Investment Subcommittee of CAPA, in August 2017.

Shanghai Paibo is a limited partnership organized and existing under the laws of the PRC on 2 August 2018, the principal business of which includes business management consultancy, and nutrition and health consultancy. As of the Latest Practicable Date, the assets managed by Shanghai Paibo amounted to approximately RMB14.0 million, which were primarily utilized as pre-IPO investment in our Company. Shanghai Paibo is wholly owned by Independent Third Parties. Shanghai Paibo is directly owned by Hangzhou Zhongye Chenrui Venture Capital Management Partnership (Limited Liability Partnership) (杭州中葉晨瑞創業投資管理合夥企業(有限合夥)) (“**Hangzhou Zhongye**”) as to 99.7% and Shanghai Zhongye Shentai Enterprise Management Consulting Co., Ltd. (上海中葉深太企業管理諮詢有限公司) (“**Shanghai Zhongye**”) as to 0.3%. Hangzhou Zhongye is a limited liability partnership with an investment pool of approximately RMB14.0 million which primarily focuses on investing in our Company. Shanghai Zhongye, the general partner of Shanghai Paibo, is a limited liability company which is primarily engaged in the provision of business management consultancy and business information consultancy services. Both Hangzhou Zhongye and Shanghai Zhongye are controlled, through various intermediaries, by Zhongye Asset Management Co., Ltd. (中葉資本管理有限公司) (“**Zhongye Asset Management**”), a limited liability company with a principal business of investment management, asset management and investment consulting. Zhongye Asset Management has a registered capital of RMB100 million and the assets under management by Zhongye Asset Management amounted to more than RMB30 million, including companies engaging in healthcare and pharmaceutical industries. As of the Latest Practicable Date and to the best knowledge of the Company, Zhongye Asset Management is ultimately held by Diao Yuhe as to 17.3%, Ma Hong as to 15.8% and Wu Qiong as to 11.8% and other 15 individual shareholders each being an Independent Third Party holding less than 10%. The largest direct shareholder of Zhongye Asset Management is Beijing Hangtian Zhaofeng Investment Co., Ltd (北京航天兆豐投資有限公司), which currently holds 30% equity interest in Zhongye Asset Management. To the best knowledge of our Company, due to its change of investment plan based on commercial decision not related to our Company, Beijing Hangtian Zhaofeng Investment Co., Ltd entered into a share transfer agreement with Pinghu Zhenyang Wuliu Co., Ltd (平湖甄揚物流有限公司) on 14 November 2019, pursuant to which Beijing Hangtian Zhaofeng Investment Co., Ltd will transfer its 30% interest in Zhongye Asset Management to Pinghu Zhenyang Wuliu Co., Ltd. To the best



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knowledge of our Directors, Pinghu Zhenyang Wuliu Co., Ltd. was ultimately owned by Yang Renpei, Zhang Yinfang and Yang Weishan, each an Independent Third Party, as to 55%, 23.75% and 21.25%, respectively and it intends to invest in Zhongye Asset Management as it considers Zhongye Asset Management a company with future growth potential. As of the Latest Practicable Date, such share transfer has not yet been completed. The general manager of Shanghai Zhongye, Ms. Wu Jin gained acquaintance with Mr. Fu through referral by their mutual friend, an Independent Third Party who was the vice president of the Investment Sub-committee of CAPA, in August 2017.

Huamei Medical was incorporated in the Cayman Islands with limited liability on 28 May 2018. Huamei Medical is indirectly wholly owned by Wonderland International Financial Holdings Company (華德國際金融控股有限公司) (“**Wonderland Financial Holdings**”) which is directly owned by Hua Zhi Investment Limited as to 58.4%, Pu Shi International Investment Limited as to 18.4%, Wonderland Capital International Holdings Company as to 13.2% and Able Plus Investment (Holding) Limited as to 10%. Hua Zhi Investment Limited is ultimately owned by Li Gang as to 49%, Lu Qing as to 13.5%, Wang Shengkun as to 11.4%, Zhou Linxin as to 9.9% and other 28 individual shareholders as to 16.1%, with each holding no more than 3% and all being Independent Third Parties except Mr. Xie Lijun being the non-executive Director of our Company who holds 0.1% in Hua Zhi Investment Limited. Able Plus Investment (Holding) Limited is ultimately wholly owned by Pan Lihui, an Independent Third Party. Pu Shi International Investment Limited is ultimately wholly owned by Cai Hua, an Independent Third Party. Wonderland Capital International Holdings Limited is ultimately owned by Mingo Cheung as to 20%, Yan Qiang as to 20%, Shi Jiaqi as to 20%, Jiang Peixing as to 17.5%, Liu Shaokang as to 17.5% and Li Xiaolei as to 5%, all being Independent Third Parties. Huamei Medical is principally engaged in investment business. Wonderland Financial Holdings is an asset management company and its wholly owned subsidiary, Wonderland International Asset Management Limited, is licensed to conduct Type 9 (asset management) of the regulated activities under the SFO. The assets under management by Wonderland International Financial Holdings Limited amounted to approximately HK\$2,500 million, and it has invested another company engaging in medical equipment management industry. Mr. Xie Lijun, a vice chief executive officer in Wonderland International Financial Holdings Limited, an indirectly wholly owned subsidiary of Wonderland Financial Holdings, was acquainted with Mr. Fu through participation in the 6th Annual National Meeting of Minimally Invasive Aesthetic Medicine (第六屆全國微創醫學美容大會) hosted by CAPA in September 2017 in Beijing, the PRC. Other than the financial investment in our Group and that Mr. Xie Lijun being one of the minority shareholders in Hua Zhi Investment Limited, Huamei Medical and its ultimate beneficial owners are Independent Third Parties.

Our Directors are of the view that these Pre-IPO Investors completed their Pre-IPO Investment in our Company as they are positive about the growth of the aesthetic medical industry in the long term, and are satisfied with the business prospect and future development of our Company, considering our business operation, performance and financials in the Track Record Period.

## HISTORY AND REORGANIZATION

### Basis of consideration

There were three tranches of Pre-IPO Investments with their basis of consideration and other details set forth in the table below:

Tranches of Pre-IPO Investments	Approximate cost per Share paid by Pre-IPO Investors	Pre-IPO Investor(s) involved	Type of investment	Basis of consideration
First	RMB0.38	Success Concept	Financial	The consideration was determined based on arm's length negotiation after taking into account a number of factors, including (i) commercial negotiation between Ruide BVI and Success Concept; (ii) the timing of investment was the earliest among all Pre-IPO Investors; and (iii) the estimated valuation of our Group, being approximately RMB171.5 million <sup>(Note 1)</sup> , which was determined with reference to the historical financial results of our Group in 2017 and the then price to earnings ratios of comparable companies listed on the Stock Exchange engaging in aesthetic medical services in Hong Kong or businesses related to aesthetic medical services such as beauty and slimming services, and specialty medical services.
Second	RMB0.05	Youxin Management and Beauty Milkway	Strategic Youxin Management is a company wholly owned by Mr. Li Wai Chung, an experienced consultant in the finance industry specialized in capital market and corporate finance and executing various cross-border acquisition projects for companies of different industry sectors. Mr. Li Wai Chung's contribution to our Company includes providing financial consulting services, advising on business and financing strategy in connection to corporate planning and expansion, and coordinating and liaising with professional parties in regards to our Listing. In particular, the financial consulting services include screening and identifying potential pre-IPO investors, liaising and communicating with potential pre-IPO investors, reviewing term sheets and the relevant investment agreements, attending numerous meetings and negotiating with investors on key commercial terms in the interests of our Company and performing other administrative duties (such as, arranging meetings among our Company and these pre-IPO investors) in the PRC in relation to the pre-IPO investment <sup>(Note 2)</sup> .	The considerations were determined based on arm's length negotiation primarily with reference to the registered capital of Raily Beauty Consultation as of 14 September 2018, being approximately RMB20 million <sup>(Note 1)</sup> , after taking into account possible sharing of business resources, potential strategic alliance, potential future opportunities to cooperate as well as any possible potential mutual benefits our Company and the strategic investors may explore together after the Listing.

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Tranches of Pre-IPO Investments	Approximate cost per Share paid by Pre-IPO Investors	Pre-IPO Investor(s) involved	Type of investment	Basis of consideration
			<p>Youxin Management has consulted with the legal counsels in the PRC and based on Youxin Management's confirmation, our Directors understand that no license or registration with relevant authorities is required for the provision of the above services under the PRC law. Apart from the foregoing advice and provision of financial consulting services with respect to the Pre-IPO Investments into our Group, from which Youxin Management received a commission of approximately RMB6.7 million from our Company pursuant to the financial consulting agreement<sup>(Note 3)</sup>, our Company received no other direct services from Youxin Management.</p> <p>The commission is calculated on the progressive basis of a commission rate up to 8% of the Pre-IPO proceeds received by our Company from the Pre-IPO Investors identified by Youxin Management, namely, Huamei Medical, Shanghai Donghua and Shanghai Paibo<sup>(Note 4)</sup>. The commission rate is determined on an arm's length basis, taking into account the underwriting commission rate generally charged in initial public offerings, and taking into account the market conditions and associated uncertainties with respect to our Listing, hence the contributions and efforts in identifying ,communicating with potential pre-IPO investors and providing administrative services in the PRC in relation to the pre-IPO investment for our Company. Therefore, our Directors are of the view that the nature of services provided and the commission rate charged by Youxin Management reflect the value of contributions for such services and do not therefore materially deviate from market practice. Such commission was accounted for as a deduction from the capital reserve of our Group after the receipt of pre-IPO proceeds in our Group's financial statements.</p> <p>Leveraging on his experience, our Directors are of the view that Mr. Li Wai Chung is able to deliver a blend of conducive input and pragmatic business-focused advice on risk management and strategic development of our Company.</p> <p>Beauty Milkway is a company wholly owned by Mr. Li Xuguang, who is experienced working in the aesthetic medical industry promotion of international brands. He has made relentless efforts on strengthening the brand recognition of our Company for which no advisory fees were paid. Save for providing advice on strengthening our brand to our senior management, Beauty Milkway did not provide any direct services to our Company.</p>	

## HISTORY AND REORGANIZATION

Tranches of Pre-IPO Investments	Approximate cost per Share paid by Pre-IPO Investors	Pre-IPO Investor(s) involved	Type of investment	Basis of consideration
Third	RMB1.15	Beauty Milkway, Mr. Cheng Lei Jack, Huamei Medical, Shanghai Paibo and Shanghai Donghua	Financial	The considerations were determined based on the arm's length negotiation after taking into account a number of factors, including that (i) the proceeds of investment would be used for the expansion and development of our Group's business; (ii) the growing prospects and market demands in aesthetic medical industry; and (iii) the estimated valuation of our Group, being approximately RMB450 million <sup>(Note 1)</sup> , which was determined based on the forecasted financial results in 2019 and 2020 and the then price to earnings ratios of comparable companies listed on the Stock Exchange engaging in aesthetic medical services in Hong Kong or businesses related to aesthetic medical services such as beauty and slimming services, and specialty medical services.

*Notes:*

- 1: The difference between the implied valuation of the Group in each tranche of Pre-IPO Investments and the valuation upon Listing is attributable to the fact that: (a) the Pre-IPO investors made the investment at an early stage of the Listing and assumed the risk that the Listing may not occur subject to various factors including, among others, the approval of the Stock Exchange, pricing, financial performance of the Company and the market conditions, which are beyond the control of the Pre-IPO Investors; (b) in addition, with respect to Youxin Management and Beauty Milkway, the implied valuation took into account the strategic benefits they may bring forth to our Group. Accordingly, our Directors believe that while the Company had an interest to negotiate a high valuation for Pre-IPO Investments which is close to its valuation upon Listing, the Directors believe the final valuations for the Pre-IPO Investments have fairly reflected the risks and uncertainties the Pre-IPO Investors were prepared to assume in the Listing process of the Company, as well as the strategic benefits brought to our Company by the strategic pre-IPO investors.
- 2: As contemplated by our Company and Youxin Management when the financial consulting agreement was entered into, the responsibilities of Youxin Management shall mainly focus on liaising and communicating with institutional investors that intend to invest into the Company by capital injection, such as, Huamei Medical, Shanghai Donghua and Shanghai Paibo, which are established financial institutions in the PRC operating under strict investment due diligence requirements, stringent internal approval procedures and various internal and risk control guidelines. It is expected that accepting pre-IPO investments from institutional investors would involve prolonged negotiation process and intensive workload, such as, attending numerous meetings with them and negotiating on key commercial terms, promptly responding to numerous queries in order to help satisfy their investment due diligence requirements, investment approval procedures and internal and risk control guidelines, and performing other administrative duties, such as, arranging meetings among our Company and these pre-IPO investors in the PRC. Such services specifically required a higher level of experience, financial knowledge and competency. Therefore, the Company engaged Youxin Management as financial consultant as our Directors consider that it would be in the interests of our Company to have a party with strong financial and professional knowledge and transaction experience as well as good insights in business environment of China to handle the prolonged commercial negotiation with the potential institutional pre-IPO investors so that the management of our Company, in particular, Mr. Fu, would be able to continue to focus on the business operation and development of the Group.

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- 3: The financial consulting agreement was entered into between our Company and Youxin Management on 11 January 2019. The key arrangements of the financial consulting agreement include that: (a) Youxin Management agrees to, *inter alia*, screen and identify potential pre-IPO investors, liaise and communicate with potential pre-IPO investors, review documentation, attend meetings and negotiations and provide administrative services (such as, arranging meetings among our Company and potential pre-IPO investors) in the PRC in relation to the pre-IPO investment; (b) our Company shall pay Youxin Management a commission calculated with reference to the proceed of pre-IPO investment received from the pre-IPO investors identified by Youxin Management. The commission rate is 3% if the proceeds of the pre-IPO investment are less than RMB30 million, 5% if such proceeds are over RMB30 million but less than RMB50 million, and 8% if such proceeds are over RMB50 million. The term of the financial consulting agreement is 18 months, effective from 11 January 2019, and shall be automatically extended to the completion date of any investment identified by Youxin Management, if such investment shall be completed on a date later than the expiry date of the 18-months term. As at the Latest Practicable Date, the financial consulting agreement has been terminated. The specific services provided by Youxin Management under the financial consulting agreement included (a) providing financial consulting services to our Company and assisting our Company to effectively screen and assess potential investors, (b) analysing and planning the investment structures, (c) negotiating on and hammering out the key commercial terms over numerous round of negotiations with different investors, throughout a period of more than one and a half years.
- 4: Youxin Management became acquainted with Huamei Medical, Shanghai Paibo and Shanghai Donghua through the referral of Mr. Xie Lijun in May 2018, Ms. Wu Jin in July 2018 and Ms. Fan Qirui in May 2018, respectively. As Youxin Management was engaged by our Company as its external financial consultant to assist our Company to negotiate with the potential pre-IPO investors, including Huamei Medical, Shanghai Donghua and Shanghai Paibo, Mr. Fu introduced Mr. Li Wai Chung of Youxin Management to the representatives of Huamei Medical, Shanghai Donghua and Shanghai Paibo respectively, in order to procure their investments in our Company. In May 2018, Mr. Fu introduced Mr. Li Wai Chung to Mr. Xie Lijun of Wonderland Financial Holding and Ms. Fan Qirui of Shanghai Donghua. Later in July 2018, Mr. Fu further introduced Mr. Li Wai Chung to Ms. Wu Jin of Shanghai Paibo. Preliminary rounds of discussion were conducted between the parties and Mr. Li Wai Chung of Youxin Management led the discussion on our Company's business, future plans and growing needs with the investors and their representatives. For the details of Mr. Xie Lijun, Mr. Wu Jin and Ms. Fan Qirui, please refer to "History and Reorganization — Information regarding the Pre-IPO Investors". From July 2018, Youxin Management started to communicate with Huamei Medical, Shanghai Paibo and Shanghai Donghua, and their respective boards of directors and/or investment committees on behalf of our Company, which led to them becoming interested in making investment into our Company.

### Use of Proceeds from the Pre-IPO Investments

As at the Latest Practicable Date, approximately 82.2% of the proceeds from Pre-IPO Investments have been utilized for funding the payments of the listing expenses, replenishing the working capital for operation and development of our business.

### Lock-up Period

The Shares held by Pre-IPO Investors will be subject to lock-up for a period for six months commencing on the Listing Date and shall not be disposed of without written consent of our Company.

### Public Float

Upon the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised), the Pre-IPO Investors will each hold less than 10% of the issued Shares. The Pre-IPO Investors have confirmed to our Company that they are not connected persons of our Company and are not accustomed to take instructions from a connected person in relation to the acquisition, disposal, voting or other disposition

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## HISTORY AND REORGANIZATION

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of Shares held or to be allotted to them. Therefore, the Shares held by our Pre-IPO Investors under the Pre-IPO Investments will be counted towards the public float upon the Listing for the purpose of Rule 8.08 of the Listing Rules.

### **Special Rights of the Pre-IPO Investors**

Certain Pre-IPO Investors have been granted a number of special rights including, among others, right of first refusal, pre-emptive rights and information rights. Such special rights shall be automatically terminated three days before the submission of the Listing.

In particular, with regards to the redemption rights granted under the shareholders' agreement dated 18 April 2019, Shanghai Donghua, Shanghai Paibo and Huamei Medical have the right to request our Company to buy back the shares subscribed under the respective share subscription agreements, in the event that our Company fails to achieve the Listing before 31 December 2020. On 22 April 2019, pursuant to the respective supplemental shareholders' agreements, Shanghai Donghua, Shanghai Paibo and Huamei Medical agreed to waive such redemption rights.

Save as the shareholders' agreement, the supplementary shareholders' agreements and the pre-IPO investment agreements, the details of which are set out in "Statutory and General Information — B. Further Information about Our Business — 1. Summary of material contracts" in Appendix V and "History and Reorganization — Principal Terms of the Pre-IPO Investments" in this prospectus, and save as the financial consulting agreement disclosed in "History and Reorganization — Basis of Consideration", our Directors are not aware of any other agreement, arrangement or understanding, whether verbally or in writing, among the Pre-IPO Investors, the Group, its shareholders, directors, management or any of their respective associates in relation to the Company's shares and/or management of the Group. Save as Youxin Management and Beauty Milkway, which provide services to our Company as strategic investors as disclosed in "Basis of Consideration" in this section, as well as our non-executive Directors, Ms. Fan Qirui and Mr. Xie Lijun, who also held positions in the affiliates of Shanghai Donghua and Huamei Medical as disclosed in "Information regarding the Pre-IPO Investors" in this section, the Pre-IPO Investors do not have any other role or involvement in the Company's proposed Listing.

### **Strategic benefits of the Pre-IPO Investors brought to our Company**

Our Directors are of the view that our Company can benefit from the Pre-IPO Investors' commitment to our Company, and their investments demonstrate their confidence in the operation of our Group and serve as an endorsement of our Company's performance, strengths and prospects. Our Company also benefited from the knowledge and experience of certain Pre-IPO Investors.

### **Compliance with Interim Guidance and Guidance Letter**

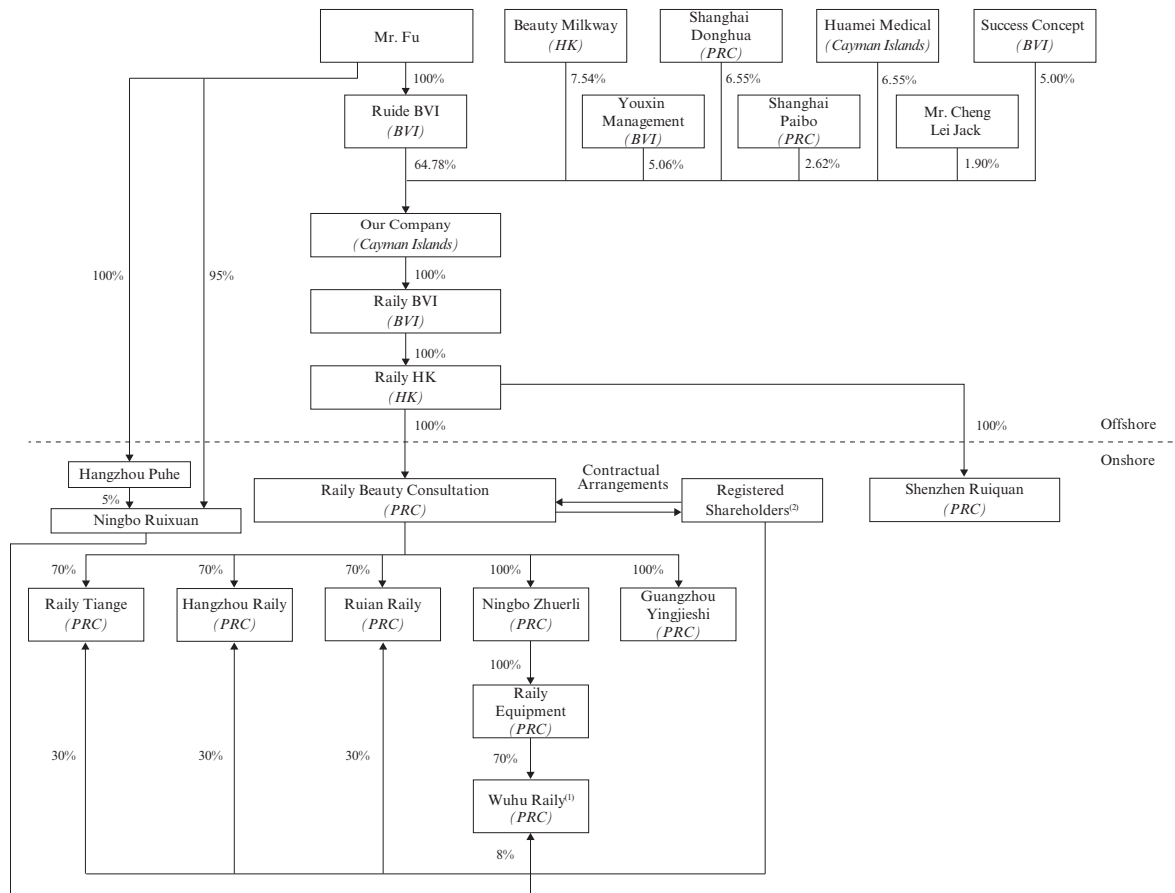
The Sole Sponsor has reviewed the relevant information and documentation in relation to the Pre-IPO Investments. On this basis, the Sole Sponsor is of the view that the Pre-IPO Investments are in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12) and the Guidance on the Pre-IPO Investments (HKEx-GL43-12).



## HISTORY AND REORGANIZATION

### CORPORATE STRUCTURES

Our corporate and shareholding structure after the completion of the Reorganization and the Pre-IPO Investments but prior to the completion of the Capitalization Issue and the Global Offering is as follows:

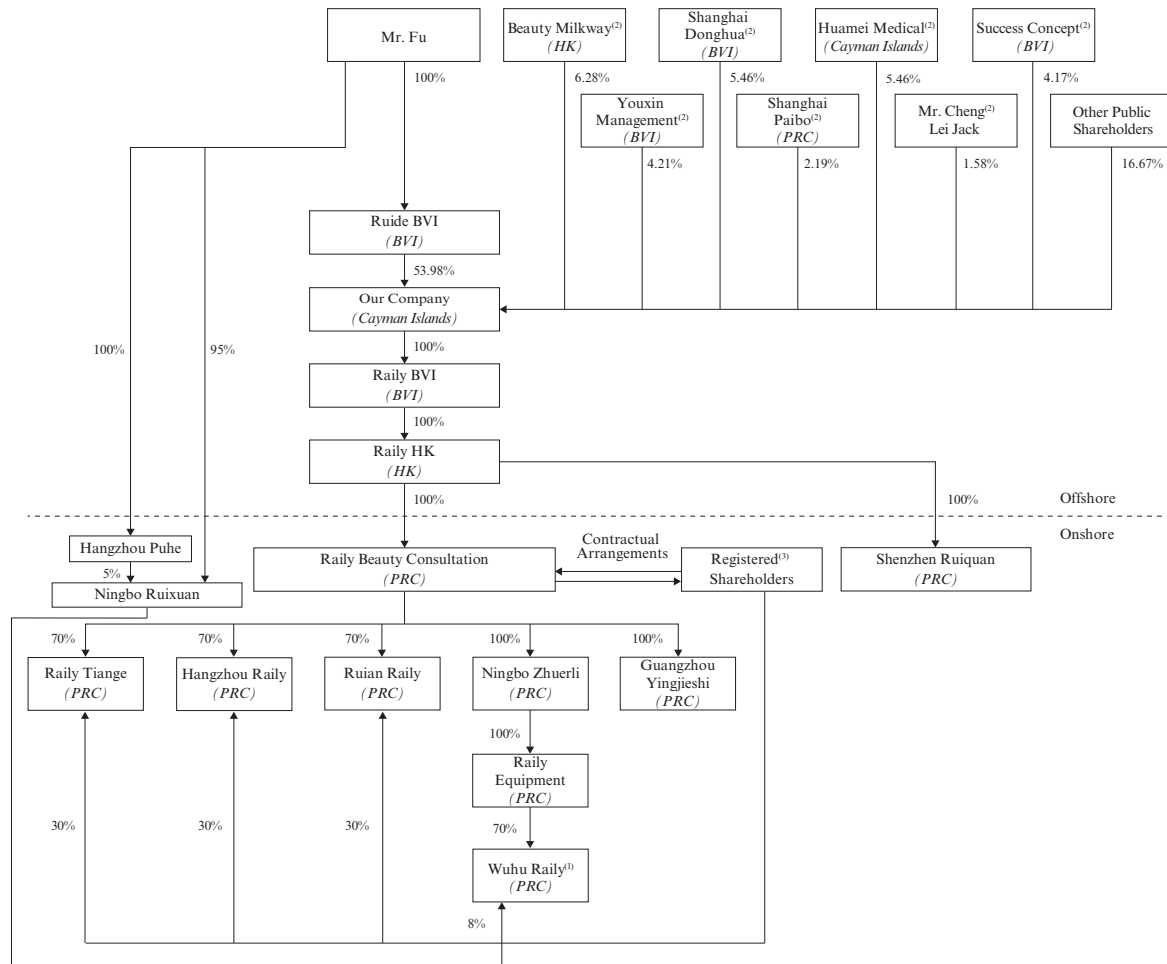


**Note 1:** The remaining 22% shareholding of Wuhu Raily is owned by Mr. Wang Yuming, the supervisor of Wuhu Raily. The remaining 8% shareholding of Wuhu Raily is owned by Ningbo Ruixuan, which is directly owned by Mr. Fu as to 95% and Hangzhou Puhe as to 5%, respectively. Ningbo Ruixuan and Hangzhou Puhe are ultimately owned by Mr. Fu. The remaining 8% shareholding of Wuhu Raily is to be applied to the Employee Profit Distribution Scheme. The Employee Profit Distribution Scheme was adopted by Ningbo Ruixuan on 30 May 2019. The purpose of the Employee Profit Distribution Scheme is to grant the entitlement of cash dividend that Ningbo Ruixuan is entitled to receive from Wuhu Raily to Eligible Person as incentives or rewards for their contribution to Wuhu Raily. The Eligible Persons shall be those who directly contribute to the overall performance and continuous development of Wuhu Raily, and shall not be those who have breached the PRC laws and regulations, or the internal rules and policies of Wuhu Raily. The Eligible Persons shall also achieve the required key performance indicators for the relevant period. The Employee Profit Distribution Scheme took effect from 30 May 2019, and the partners of Ningbo Ruixuan have the discretion to amend or terminate it in the event of natural disaster, political unrest or other extraordinary incidents. The Employee Profit Distribution Scheme shall be subject to the administration of the partners of Ningbo Ruixuan and management team of Wuhu Raily whose decision shall, subject to compliance with all relevant laws and regulations, be final and binding on all parties. As advised by our PRC Legal Advisers, the Employee Profit Distribution Scheme does not violate the mandatory PRC laws and regulations.

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*Note 2:* The Registered Shareholders are the shareholders of Raily Tiange, Hangzhou Raily and Ruian Raily, including Mr. Fu and Ningbo Ruixuan. Mr. Fu, through Ruide BVI, his wholly owned offshore holding company, indirectly held approximately 64.78% of the total issued share capital of our Company prior to the completion of the Capitalization Issue and the Global Offering. Ningbo Ruixuan did not hold any shareholdings in our Group.

**Our corporate and shareholding structure immediately after the completion of the Capitalization Issue and the Global Offering (assuming the Over-Allotment Option is not exercised) will be as follows:**



*Notes:*

*Note 1:* The remaining 22% shareholding of Wuhu Raily is owned by Mr. Wang Yuming, the supervisor of Wuhu Raily. Mr. Wang Yuming is not an associate of our Controlling Shareholders, nor does he has any concert party arrangement with Mr. Fu with respect to the control of the remaining 30% shareholding in Wuhu Raily. The remaining 8% shareholding of Wuhu Raily is owned by Ningbo Ruixuan, which is directly owned by Mr. Fu as to 95% and Hangzhou Puhe as to 5%, respectively. Ningbo Ruixuan and Hangzhou Puhe are ultimately owned by Mr. Fu. The remaining 8% shareholding of Wuhu Raily is to be applied to the Employee Profit Distribution Scheme. The Employee Profit Distribution Scheme was adopted by Ningbo Ruixuan on 30 May 2019. The purpose of the Employee Profit Distribution Scheme is to grant the entitlement of cash dividend that Ningbo Ruixuan is entitled to receive from Wuhu Raily to Eligible Person as incentives or rewards for their contribution to Wuhu Raily. The Eligible Persons shall be those

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## HISTORY AND REORGANIZATION

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who directly contribute to the overall performance and continuous development of Wuhu Raily, and shall not be those who have breached the PRC laws and regulations, or the internal rules and policies of Wuhu Raily. The Eligible Persons shall also achieve the required key performance indicators for the relevant period. The Employee Profit Distribution Scheme took effect from 30 May 2019, and the partners of Ningbo Ruixuan have the discretion to amend or terminate it in the event of natural disaster, political unrest or other extraordinary incidents. The Employee Profit Distribution Scheme shall be subject to the administration of the partners of Ningbo Ruixuan and management team of Wuhu Raily whose decision shall, subject to compliance with all relevant laws and regulations, be final and binding on all parties. As advised by our PRC Legal Advisers, the Employee Profit Distribution Scheme does not violate the mandatory PRC laws and regulations.

*Note 2:* The Shares held by the Pre-IPO Investors under the Pre-IPO Investments will be counted towards the public float upon the Listing for the purpose of Rule 8.08 of the Listing Rules.

*Note 3:* The Registered Shareholders are the shareholders of Raily Tiange, Hangzhou Raily and Ruian Raily, including Mr. Fu and Ningbo Ruixuan. Mr. Fu, through Ruide BVI, his wholly owned offshore holding company, indirectly held approximately 64.78% of the total issued share capital of our Company prior to the completion of the Capitalization Issue and the Global Offering. Ningbo Ruixuan did not hold any shareholdings in our Group.

### SAFE and ODI Registration

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”), promulgated by SAFE which became effective on 14 July 2014 stipulates that a PRC resident must register with the local branch of SAFE before he contributes legal assets or equity interests in China or overseas in an overseas special purpose vehicle, which is directly incorporated or indirectly controlled by the PRC resident for the purpose of overseas investment or financing; and following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including among others, a change of Overseas SPV’s PRC resident shareholder, such as, the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer of swap, and merger and division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Director Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**Circular 13**”), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

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Pursuant to the Measures for the Administration of Overseas Investment (《境外投資管理辦法》) and the Administrative Measures for Overseas Investment by Enterprises (《企業境外投資管理辦法》) (collectively, the “**ODI Rules**”), a domestic institution shall undergo registration procedure for foreign investment in accordance with the provisions of the ODI Rules, which requires the domestic institution to register with relevant authorities prior to its overseas direct investment and obtain relevant recordation, approval, certificate or permit.

As advised by our PRC Legal Advisers, the ultimate shareholder of our Company, Mr. Fu has completed the foreign exchange registrations in May 2018 pursuant to Circular 37 and Circular 13 in relation to his offshore investments as PRC residents, and the PRC corporate shareholders of our Company, namely Shanghai Paibo and Shanghai Donghua have completed the registration/record-filing with Administrative Commission of China (Shanghai) Pilot Free Trade Zone in April 2019 pursuant to the ODI Rules in relation to their offshore investments as domestic institutions.

### **M&A Rules**

According to the provision on the M&A Rules, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM; and where a domestic company or natural person holds an equity interest in a domestic company through an offshore special purpose company by paying the acquisition price with equity interests, the overseas listing of that special purpose company shall be subject to approval by the CSRC.

As advised by our PRC Legal Advisers, Raily Beauty Consultation was a foreign-invested enterprise when the acquisitions of Raily Beauty Consultation by Raily HK took place, the acquisitions of Raily Beauty Consultation by Raily HK from Handan Guangshu and Beauty Milkway were the acquisitions of equity in a foreign invested enterprise, and as such, unless new laws and regulations are enacted or MOFCOM and CSRC publish new provisions or interpretations on the M&A Rules to the contrary in the future, the M&A Rules is not applicable and approval from MOFCOM or CSRC for the Listing is not required.

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## CONTRACTUAL ARRANGEMENTS

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### BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

We are a leading aesthetic medical service provider in Zhejiang Province, the PRC. According to the 2020 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 2020 Negative List. See the section headed “Regulatory Overview — Regulation on the Administration of Healthcare Institutions” in this prospectus for further details of the limitations on foreign ownership in the PRC.

The VIE Entities are Raily Tiange, 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. Raily Tiange is currently held as to 70% by Raily Beauty Consultation and 30% by Mr. Fu while each of Hangzhou Raily and Ruian Raily is owned as to 70% by Raily Beauty Consultation and 30% by 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 have been entered into by, among others, Hangzhou Raily, Raily Tiange, Ruian Raily and the Registered Shareholders 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.

As regards to the Contractual Arrangements, if and when MOFCOM and/or other relevant governmental departments promulgate any measures for the administration of foreign-invested enterprises engaging in 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.

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## CONTRACTUAL ARRANGEMENTS

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### PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTION

There are restrictions or prohibitions in the PRC with respect to foreign investment in certain business and industry under 2020 Negative List. See “Regulatory Overview — Rules on Foreign Investment” in this prospectus for further details.

Since we are aesthetic medical service provider, according to the 2020 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. However, 2020 Negative List does not expressly stipulate the percentage of equity interest or interest indirectly held by a foreign investor in a medical institution by means of domestic investment by a foreign-invested enterprise.

Pursuant to the Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions (《中外合資、合作醫療機構管理暫行辦法》), which allow foreign investors to partner with Chinese medical entities to establish a healthcare institution in China by means of equity joint venture or cooperative joint venture. Establishment of equity joint venture or cooperative joint venture are subject to certain requirements, including the minimum 30% equity percentage held by the Chinese partner in the joint venture. These investor qualification requirements and establishment criteria may be relaxed where the foreign-invested medical institution is to be established in Central and Western China or areas inhabited by more elderly, ethnic-minorities and poorer demographics.

Our PRC Legal Advisers consulted Health Commission of Zhejiang Province (浙江省衛生健康委員會), according to the interview, medical institutions in Zhejiang Province shall comply with the equity interest requirements as required by the Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions. Our PRC Legal Advisers has advised us that Health Commission of Zhejiang Province is a competent authority, and is of the view that our Company, as a foreign entity, shall not legally hold more than 70% of the equity interest in any medical institutions in Hangzhou City and Ruian City.

Our Company is primarily engaged in the provision of aesthetic medical services in the PRC. According to the 2020 Negative List, medical institutions fall within the “restricted” category, and therefore may not be held 100% by foreign investments. Foreign investments are also restricted to the form of sino-foreign equity joint venture or cooperative joint venture, except for investments by qualified service providers as defined under the Notice of Expanding the Territorial Scope for Hong Kong and Macao Service Suppliers to Establish Wholly-Owned Hospitals in the Mainland (《關於擴大香港和澳門服務提供者在內地設立獨資醫院地域範圍的通知》), the Mainland and Hong Kong Closer Economic Partnership Arrangement and its supplemental Agreements (《內地與香港關於建立更緊密經貿關係安排及其補充協議》), Interim Measures for the Administration of Hong Kong and Macao Service Providers’ Establishment of Sole Proprietorship Hospitals in the Mainland (《香港和澳門服務提供者在內地設立獨資醫院管理暫行辦法》), and Notice Concerning Establishment of Medical Institutions in the Mainland by Hong Kong and Macao Service Providers (《關於



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## CONTRACTUAL ARRANGEMENTS

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香港和澳門服務提供者在內地設立醫療機構有關問題的通知》)。As such, in accordance with the aforementioned regulations and interview, we do not directly own 100% equity interest in the VIE Entities. Our Company, through Raily Beauty Consultation, holds 70% equity interest in Hangzhou Raily, Raily Tiange and Ruian Raily, respectively. Mr. Fu holds 30% equity interest in Raily Tiange while Ningbo Ruixuan holds 30% equity interest in Hangzhou Raily and Ruian Raily. See the section headed “Regulatory Overview — Rules on Foreign Investment” in this prospectus for further details.

Our VIE Entities are aesthetic medical services provider in the PRC, according to 2020 Negative List, medical institutions are restricted to the form of sino-foreign equity joint venture. Our PRC Legal Advisers advised that, we shall not legally hold more than 70% of the equity interest in the VIE Entities pursuant to 2020 Negative List and Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions. Therefore, the Contractual Arrangements are designed to minimize the potential conflict with relevant PRC laws and regulations.

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## CONTRACTUAL ARRANGEMENTS

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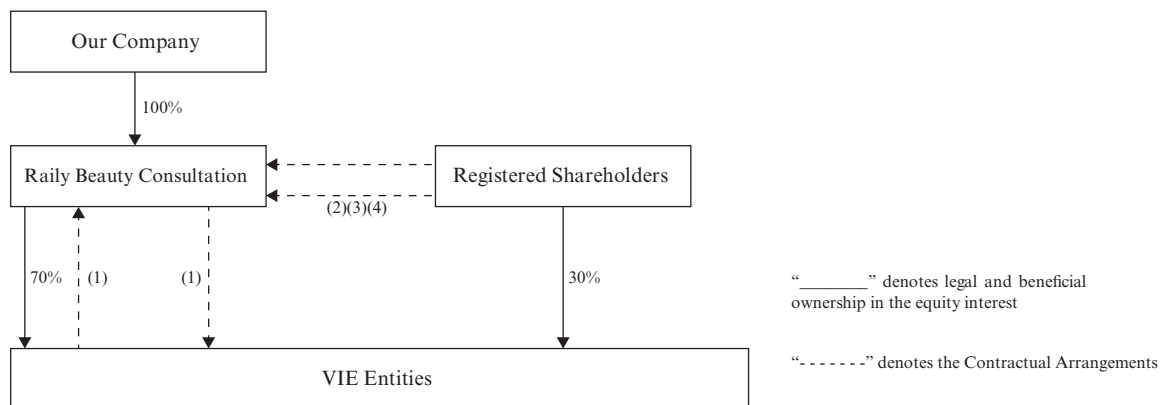
### Circumstances in which we will unwind the Contractual Arrangements

As regards to the Contractual Arrangements, if and when MOFCOM and/or other relevant governmental departments promulgate any measures for the administration of foreign-invested enterprises engaging in 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.

### OUR CONTRACTUAL ARRANGEMENTS

As foreign investment in certain areas of the industry in which we currently operate in is subject to restrictions under current PRC laws and regulations as outlined above, we do not own 100% equity interest in the VIE Entities. The Contractual Arrangements apply to the 30% equity interest in the VIE Entities.

The following simplified diagram illustrates the flow of economic benefits from the VIE Entities to our Group as stipulated under the Contractual Arrangements:



*Notes:*

1. Payment of service fee from the VIE Entities to Raily Beauty Consultation in exchange of the provision of technical services, management support and consultancy services. Please see "Business Cooperation Agreement" for details.
2. Exclusive option to acquire all or part of the Registered Shareholders' equity interest in the VIE Entities and/or all or parts of the assets of the VIE Entities. Please see "Exclusive Option Agreement" below for details.
3. Entrustment of shareholders' rights of the Registered Shareholders. Please see "Voting Rights Proxy Agreement" below for details.
4. Pledge of equity interest by the Registered Shareholders of their equity interest in the VIE Entities. Please see "Equity Pledge Agreement" below for details.

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## CONTRACTUAL ARRANGEMENTS

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### SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

#### **Business Cooperation Agreement**

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.

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.

In addition, pursuant to the Business Cooperation Agreements, without the prior written approval from Raily Beauty Consultation, each of the VIE Entities shall not enter into any transactions (save as those transactions entered into in the ordinary course of business within the amount of RMB100,000), including but not limited to:

- (1) the disposal, transfer, lending or authorization of the use of any assets or rights of the VIE entities (including but not limited to intellectual properties);
- (2) the entering into of any contracts or arrangements which may conflict with the Contractual Arrangements or adversely affect the interests of Raily Beauty Consultation under the Contractual Arrangements;
- (3) the entering into of any material contracts; and
- (4) the acquisition of any assets or rights from any third parties.

Pursuant to the Business Cooperation Agreements, the service fee and the intellectual properties licensing fee shall be equivalent to the total combined profit of each of the VIE Entities for the year, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Raily Beauty Consultation shall have the right to adjust the level of the service fee and the intellectual properties licensing fee based on the actual service scope and with reference to the operating conditions of the VIE Entities. Each of the VIE Entities shall provide its financial report within 30 business days after the end of each fiscal year and Raily Beauty Consultation shall

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## CONTRACTUAL ARRANGEMENTS

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provide an invoice for the service fee and intellectual properties licensing fee within 15 business days upon receipt of the financial report from each of the VIE Entities, which will then make payment within seven business days upon receipt of such invoice.

The Business Cooperation Agreements have a term of three years commencing from 1 January 2019, the date of the agreement and will be automatically renewed for another three years upon the expiration of each term, unless being terminated in accordance with the terms therein. According to the Business Cooperation Agreements, unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except Raily Beauty Consultation) is entitled to unilaterally terminate it. Raily Beauty Consultation has the right to terminate the Business Cooperation Agreements with one month's prior written notice in the event that (i) the VIE Entities breach any terms under the Business Cooperation Agreements and fail to rectify within 20 business days upon receipt of written notice from Raily Beauty Consultation; or (ii) the VIE Entities cease to operate any business, become insolvent, bankrupt or to be subject of liquidation or dissolution procedures, be unable to repay debts due or to be dissolved.

### **Voting Rights Proxy Agreement**

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 non-independent or who may give rise to conflict of interests, as his attorney-in-fact to exercise such shareholder's rights in the VIE Entities, including without limitation to, the rights to:

- (1) convene and participate in shareholders' meeting in the capacity of a proxy of the Registered Shareholders, and adopt and execute all written resolutions, on matters to be discussed and resolved at shareholders' meetings;
- (2) exercise the shareholders' rights pursuant to the relevant PRC laws and regulations and the articles of association of the VIE Entities, on behalf of the Registered Shareholders, including without limitation to, the voting rights, the sale, transfer or pledge of all or part of the equity interest of the VIE Entities;
- (3) designate or appoint the legal representatives, directors, chief executive officers, supervisors, general managers and other senior officers of the VIE Entities pursuant to the relevant PRC laws and regulations and the articles of association in the capacity of a proxy of each Registered Shareholder;
- (4) submit or file any required document to any company registry or other authorities for their purpose of approval, registration, filing, licensing and any other legal proceedings;
- (5) supervise the business performance, approve the annual budget, declare dividends and review the financial information of the VIE Entities;

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## CONTRACTUAL ARRANGEMENTS

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- (6) exercise the voting rights with regards to the dissolution matters of the VIE Entities;
- (7) raise lawsuits or other legal proceedings against the directors and senior officers of the VIE Entities when their behaviors harm the interest of VIE Entities and its shareholders;
- (8) approve the amendments of the articles of association of the VIE Entities;
- (9) approve the capital increase, capital reduce, merger and separation of the VIE Entities; and
- (10) any other rights entitled to the shareholders pursuant to the articles of association or PRC laws and regulations of the VIE Entities.

The Registered Shareholders undertake that they shall not take or omit to take any action which may lead to a conflict of interest with Raily Beauty Consultation or its subsidiaries. If there is any conflict of interest, Raily Beauty Consultation shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. The Registered Shareholders will unconditionally follow the instructions of Raily Beauty Consultation to take any action to eliminate such conflict of interest.

The Voting Rights Proxy Agreements have an indefinite term commencing on 1 January 2019, being the date of the agreement and will be terminated in the event that:

- (1) the Voting Rights Proxy Agreements are unilaterally terminated by Raily Beauty Consultation by giving the Registered Shareholders and the VIE Entities one month's prior written notice of termination; or
- (2) upon the acquisition of the entire equity interests in and/or the assets of the VIE Entities to Raily Beauty Consultation pursuant to the Contractual Arrangements and the completion of the relevant registration; or
- (3) the continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations.

### **Exclusive Option Agreement**

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. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will

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## CONTRACTUAL ARRANGEMENTS

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compensate to Raily Beauty Consultation any difference in consideration in such way required by Raily Beauty Consultation they receive in the event that Raily Beauty Consultation exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in each of the VIE Entities that exceeds RMB 1.

Pursuant to the Exclusive Option Agreements, the Registered Shareholders and each of the VIE Entities have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior approval from Raily Beauty Consultation, including but not limited to the following matters:

- (1) sell, transfer, create encumbrances or otherwise dispose of any assets and/or equity interests;
- (2) alter its business scope;
- (3) increase or decrease its registered share capital or engage in any merger, acquisition or investment in any entities;
- (4) sell, transfer, create encumbrances or otherwise dispose of any rights related to its material assets, business, operation and revenue;
- (5) cease any material contracts or enter into any agreements that may conflict with the current material contracts undertaken by the VIE Entities;
- (6) enters into any transaction that may materially affect the assets, liabilities, business operation, shareholding structure and any other rights (excluding those transactions taken place in the ordinary course of business or have been disclosed and obtained the written approval from Raily Beauty Consultation);
- (7) terminate, wind-up or dissolve the VIE Entities;
- (8) amend its articles of association;
- (9) incur, take up, guarantee or allow any indebtedness other than those in the ordinary course of business;
- (10) distribute any dividend to its shareholders; and
- (11) appoint or remove any directors, supervisors or other senior officers.



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## CONTRACTUAL ARRANGEMENTS

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The Exclusive Option Agreements have an indefinite term commencing on 1 January 2019, being the date of the agreement, until it is terminated:

- (1) by Raily Beauty Consultation by giving the VIE Entities and the Registered Shareholders one-month prior written notice of termination; or
- (2) upon the exercise of the option by Raily Beauty Consultation to acquire the entire equity interests held by the Registered Shareholders and/or the assets of the VIE Entities to Raily Beauty Consultation, and the completion of the relevant registration; or
- (3) when the continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations.

Neither the VIE Entities nor the Registered Shareholders are contractually entitled to terminate the Exclusive Option Agreements with Raily Beauty Consultation.

### **Equity Pledge Agreement**

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.

If the VIE Entities declare any dividend during the term of the pledge, Raily Beauty Consultation is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or the VIE Entities breaches or fails to fulfill the obligations under any of the aforementioned agreements, Raily Beauty Consultation, as the pledgee, upon issuing a written notice to the pledgors, will be entitled to all remedies available under PRC laws and the Contractual Arrangements, including but not limited to disposing of the pledged equity interests, entirely or partially.

In addition, pursuant to the Equity Pledge Agreements, each of the Registered Shareholder has undertaken to Raily Beauty Consultation, among other things, not to transfer their equity interests in the VIE Entities and not to create or allow any pledge thereon without its prior written consent.

The pledges in respect of the VIE Entities take effect upon the completion of registration with the relevant PRC authority and shall remain valid until after all the contractual obligations of the Registered Shareholders and the VIE Entities under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the VIE Entities under the relevant Contractual Arrangements have been fully repaid.

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## CONTRACTUAL ARRANGEMENTS

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The Equity Pledge Agreements have an indefinite term commencing on 1 January 2019, being the date of the agreement and shall remain valid until (1) each of the Registered Shareholders has transferred all of his equity interests and/or assets in the VIE Entities in accordance with the Exclusive Option Agreement and completed the relevant registration; (2) the Equity Pledge Agreements have been unilaterally terminated by Raily Beauty Consultation by giving the VIE Entities and the Registered Shareholders a one-month prior written notice.

The registration of the Equity Pledge Agreements as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and PRC laws and regulations on 24 May 2019, 28 May 2019 and 4 June 2019 respectively.

### **Confirmations from Mr. Fu**

Mr. Fu has confirmed to the effect that:

- (1) in the event of his death, incapacity, divorce or any other event which causes his inability to exercise rights as a shareholder of the respective Registered Shareholder, his successor, guardian or spouse who may obtain the equity interest in the VIE Entities will be deemed as a signing party to the Contractual Arrangements, and undertake all the rights and obligations under the Contractual Arrangements. They will not claim any interest that may affect the enforcement of the Contractual Arrangements; and
- (2) Mr. Fu will procure his spouse to sign all documents and take all actions necessary to ensure the proper enforcement of the Contractual Arrangements and the day-to-day management and voting rights of the VIE Entities by the respective Registered Shareholder will not be affected by his spouse.

### **Spousal undertakings**

The spouse of Mr. Fu has executed a written consent to the effect that:

- (1) she will sign all documents and take all actions necessary to ensure the proper enforcement of the Contractual Arrangements;
- (2) she will not claim any interest in the equity interest held by Mr. Fu in the VIE Entities and no consent or authorization from her is needed to amend or terminate the Contractual Arrangements; and
- (3) she undertakes to be bound by the agreements under the Contractual Arrangements (as amended, supplemented or restated from time to time) in the event that she for any reason obtains any equity interests of the VIE Entities as Mr. Fu's spouse.

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## CONTRACTUAL ARRANGEMENTS

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### OTHER KEY TERMS OF THE CONTRACTUAL ARRANGEMENTS

#### Dispute Resolutions

In the event of any dispute with respect to the construction and performance of the provisions, each of the Contractual Arrangements stipulates that:

- (a) the parties shall negotiate in good faith to resolve the dispute;
- (b) in the event the parties fail to settle the dispute within 30 days of delivery of written negotiation request, any party may submit the relevant dispute to the Hangzhou Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Hangzhou City, China. The arbitration ruling shall be final and binding on all parties;
- (c) the arbitral tribunal may award remedies over the equity interest and property interest and other assets of the VIE Entities, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the VIE Entities; and
- (d) the courts of competent jurisdictions shall have the power to grant interim remedies in support of arbitration pending information of the arbitral tribunal or in appropriate cases in accordance with PRC laws and regulations and arbitration rules in effect. The courts of Hong Kong, the Cayman Islands, BVI, the PRC and the place where the principal assets of our Company and our VIE Entities are located shall be considered as having jurisdiction for the above purposes.

In connection with the dispute resolution method as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Advisers that:

- (a) a tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our VIE Entities pursuant to current PRC laws; and
- (b) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that the VIE Entities or the Registered Shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our the VIE Entities and conduct our business could be materially and adversely affected. See section headed “Risk Factors — Risks Relating to our Contractual Arrangements” in this document for details.

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## CONTRACTUAL ARRANGEMENTS

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### **Succession**

The provisions set out in the Contractual Arrangement are also binding on the successors of Mr. Fu, as if the successors were signing parties to the Contractual Arrangements. Under the Succession Law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Raily Beauty Consultation may enforce its rights against the successors. Pursuant to the Contractual Arrangements, any heir of Mr. Fu shall inherit any and all rights and obligations of Mr. Fu under the Contractual Arrangements as a result of their death, loss of capacity, or under other circumstances which would affect their exercise of right as Registered Shareholders of the VIE Entities, as if such heir was a signing party to such Contractual Arrangements.

According to the terms of the Exclusive Option Agreements, Mr. Fu has undertaken, in the event of death or loss of capacity or any other events that could possibly affect his exercise of the rights and obligations in the VIE Entities, his successor, guardian or spouse shall be deemed to be a party to the Contractual Arrangements and shall assume all the rights and obligations of Mr. Fu under the Contractual Arrangements and shall not prejudice or hinder the enforcement of the Contractual Arrangements.

### **Liquidation**

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders shall transfer the remaining assets of the VIE entities after liquidation at the consideration of RMB1 or a minimum price permitted under the PRC laws and regulations to Raily Beauty Consultation to the extent permitted by the PRC laws.

### **Conflict of Interest**

Each of the Registered Shareholders has given their irrevocable undertakings in the Voting Rights Proxy Agreement which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. Please see the paragraph headed “Voting Rights Proxy Agreement” above for further details.

### **Loss Sharing**

In the event that the VIE Entities incur any loss or encounters any operational crisis, Raily Beauty Consultation may, but is not obligated to, provide financial support to the VIE Entities.

None of the agreements constituting the Contractual Arrangements provide that our Company or its wholly owned PRC subsidiary, namely Raily Beauty Consultation, is obligated to share the losses of the VIE Entities or provide financial support to the VIE Entities. Further, the VIE Entities shall be solely liable for its own debts and losses with assets and properties owned by it.

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## CONTRACTUAL ARRANGEMENTS

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Under PRC laws and regulations, our Company or Raily Beauty Consultation, is not expressly required to share the losses of the VIE Entities or provide financial support to the VIE Entities. Despite the foregoing, given that the VIE Entities's financial condition and results of operations under the applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if the VIE Entities suffer losses. However, due to the restrictive provisions contained in the Contractual Arrangements, the potential adverse effect on Raily Beauty Consultation and our Company in the event of any loss suffered from the VIE Entities can be limited to a certain extent.

### **Insurance**

Our Company does not maintain any insurance policy to cover the risks relating to the Contractual Arrangements.

### **Our Confirmation**

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through VIE Entities under the Contractual Arrangements.

## **LEGALITY OF THE CONTRACTUAL ARRANGEMENTS**

Based on the consultation with Health Commission of Zhejiang Province, the competent authority for the administration of medical institution in Zhejiang Province, our PRC Legal Advisers is of the view that the Company, as a foreign entity, shall not hold more than 70% in any medical institutions in Hangzhou City and Ruian City.

Our PRC Legal Advisers conducted an interview with Health Commission of Zhejiang Province in respect of the Contractual Arrangements entitling our Company to control 30% equity interest in the VIE Entities. According to the officer, who is a competent person to provide the regulatory assurance in relation to our Company's contractual arrangements, (i) no approval from the authority is required for the execution of the Contractual Arrangement; (ii) the execution of the Contractual Arrangements does not fall into the current supervision of Health Commission of Zhejiang Province concerning foreign investment activities; and (iii) there is no prohibitive or restrictive requirement with respect to the Contractual Arrangements under current PRC law. Our PRC Legal Advisers is of the view that Health Commission of Zhejiang Province is the competent authority to give such confirmation in respect of foreign investments in medical institution in Zhejiang Province.

Our PRC Legal Advisers, after taking reasonable actions and steps to reach its legal conclusions including consultations with competent PRC regulatory authorities, is of the views that:

- (a) each of Raily Beauty Consultation and VIE Entities is duly established and validly existing under the PRC laws and has obtained all requisite approvals, permits, registrations or filings that are material for carrying out its business operations as required by the applicable PRC laws, regulations and rules;

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## CONTRACTUAL ARRANGEMENTS

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- (b) each party to the agreements underlying the Contractual Arrangements has the qualification and power to enter into such agreements. Each of the agreement comprising the Contractual Arrangements is not in violation of provisions of the constitutional documents of Raily Beauty Consultation and the VIE Entities;
- (c) all internal approval and authorization with respect to the execution and performance of each of the agreement underlying the Contractual Arrangements have been obtained from Raily Beauty Consultation and the VIE Entities and their respective shareholders;
- (d) each of the agreement underlying the Contractual Arrangements is not in violation of mandatory PRC laws and regulations currently in force, and are legally binding and enforceable on the parties of each of the agreement thereto, except for the dispute resolution awarded by the arbitration tribunal and the power of offshore courts, including the courts in Hong Kong and Cayman Islands, to grant interim remedies in support of the arbitration may not be recognised or enforced by PRC courts;
- (e) each of the agreement underlying the Contractual Arrangements does not violate the mandatory provisions of the PRC Contract Law (《中華人民共和國合同法》), the General Provisions of the PRC Civil Law (《中華人民共和國民法總則》) and other applicable PRC laws and regulations and would not be deemed as “concealing illegal intentions with a lawful form” and therefore void pursuant to Article 52 of the PRC Contract Law; and
- (f) the registration of equity interest pledge under the Equity Pledge Agreements had been completed and legally taken effect.

Pursuant to Notice on Adjusting and Approval Authority of Sino-foreign Joint Ventures and Cooperative Medical Institutions (衛生部關於調整中外合資合作醫療機構審批權限的通知), which was promulgated by the National Health Committee on 25 January 2011, to set up a sino-foreign joint venture or cooperative medical institution, after the initial examination by the municipal health administrative department in the district where the medical institution is located, it shall be reported to the provincial health administrative department for approval. Therefore, the provincial health administrative department shall be responsible for the examination and approval of the establishment of sino-foreign joint venture medical institution.

Notwithstanding the foregoing, our PRC Legal Advisers consulted Health Commission of Zhejiang Province on 23 January 2019 and 7 May 2019, with respect to the Contractual Arrangements. Our PRC Legal Advisers has advised us that (i) it is competent government authority for our Company’s principal business activities; and (ii) based on such consultations, each agreement under the Contractual Arrangement is unlikely to be deemed ineffective or invalid under applicable PRC laws and regulations or be challenged or subject to penalty for any violation of the relevant PRC laws and regulations by Health Commission of Zhejiang Province.



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Based on the above, our Directors are of the view that the Contractual Arrangements are narrowly tailored because they are only used to address the foreign ownership restriction. The Contractual Arrangements are also narrowly tailored to achieve the business purposes of our Company and minimize the potential for conflict with relevant PRC laws and regulations. Having discussed with the Directors based on the relevant rules and guidances, our PRC Legal Advisers concurs that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations. Further, our Directors have discussed with the Company's accountant to confirm that by entering into the Contractual Arrangements, the Company, through Raily Beauty Consultation, is able to control and fully combine the VIE Entities and to obtain the 30% economic benefits of the VIE Entities. According to our PRC Legal Advisers' opinion as summarized in the above paragraph headed "Legality of the Contractual Arrangements", our Directors believe that each agreement underlying the Contractual Arrangements is enforceable under PRC laws and regulations (except for the potential unenforceability of the dispute resolution therein).

### DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

#### Background of the FIL

On 13 March 2019, the 2nd meeting of the 13th SCNPC approved the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "**FIL**") which became effective on 1 January 2020, and replaced the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》), the Wholly Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法》). The FIL has now become the legal foundation for foreign investment in the PRC. On 26 December 2019, the State Council promulgated Regulation on the Implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the "**FIL Implementing Regulation**"), which came into effect on 1 January 2020. For details of the FIL and FIL Implementing Regulation, please refer to the paragraph headed "Regulatory Overview — Laws and Regulations Regarding Wholly Foreign-owned Enterprise" in this prospectus.

#### The Potential Impact of the FIL on the Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of our VIE Entities, through which we operate our business in the PRC. The FIL stipulates four forms of investment as foreign investment, however, it does not explicitly stipulate the contractual arrangements as a form of foreign investment. Nor does it explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC.

Notwithstanding the above, the FIL stipulates that foreign investment includes "Foreign Investors invest in China through many other methods under laws, administrative regulations or provisions prescribed by the State Council". Although the FIL Implementing

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Regulation promulgated by the State Council as disclosed above does not expressly stipulate the contractual arrangements as a form of foreign investment, we cannot assure you that future laws, administrative regulations or provisions to be issued by State Council will not deem contractual arrangements as a way of foreign investment, and then whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements, and as such, how our Contractual Arrangements will be classified remain uncertain.

In the extreme scenario, we may be required to unwind our Contractual Arrangements and/or dispose of our interests in VIE Entities, which would result in us not being able to own 100% of the three VIE Entities, namely Raily Tiange, Hangzhou Raily and Ruian Raily. As a result, the financial results of the VIE Entities would no longer be able to 100% consolidate into our Group's financial results. An investment loss would be recognised as a result of such de-recognition. Please see the section headed "Risk Factors — Risks Relating to our Contractual Arrangements" in this prospectus for further details. In any event, we will take reasonable steps in good faith to seek compliance with the FIL and FIL Implementing Regulation.

That being said, given that FIL and FIL Implementing Regulation do not explicitly prohibit or restrict a foreign restricted business to be controlled by contractual arrangements, and if there is no other promulgated national laws, administrative regulations or administrative rules prohibiting or restricting the operation of or affecting the legality of contractual arrangements, our PRC Legal Advisers is of the view that, each of the agreements comprising our Contractual Arrangements will continue to be legal, valid and binding on the parties, and the Contractual Arrangements will not be materially affected by the FIL.

### **POTENTIAL IMPACT TO OUR COMPANY IN THE WORST SCENARIO THAT THE CONTRACTUAL ARRANGEMENTS ARE NOT TREATED AS A DOMESTIC INVESTMENT**

Our aesthetic medical service business may be in the catalogue of prohibitions of negative list and the Contractual Arrangements may be deemed as foreign investments on prohibited or restricted industry sector. If any future laws, administrative regulations or provisions of the State Council stipulates contractual arrangements as a way of foreign investment, the Contractual Arrangements may be regarded as invalid and illegal. As a result, our Group would not be able to operate its business through the Contractual Arrangements and our Company would have to terminate the Contractual Arrangements and lose the rights to fully receive the future economic benefits of the VIE Entities. As a result, the financial results of the VIE Entities would no longer be able to 100% consolidate into our Group's financial results. An investment loss would be recognised as a result of such de-recognition. Please see the section headed "Risk Factors — Risks Relating to our Contractual Arrangements" in this prospectus for further details.

However, there are uncertainties whether any new laws, administrative regulations or provisions of the State Council stipulating that contractual arrangements are a way of foreign investments will be adopted in the future, and the relevant government authorities will have broad discretion in interpreting the law and may ultimately take a view that is

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inconsistent with our PRC Legal Advisers' understanding. In any event, our Company will take reasonable steps in good faith to seek to comply with the FIL and any other related PRC laws, regulations and rules, if and when it comes into force.

### **POTENTIAL MEASURES TO MAINTAIN CONTROL OVER AND RECEIVE ECONOMIC BENEFITS FROM THE VIE ENTITIES**

Notwithstanding the fact that there has been a recent development in the PRC legislation on foreign investment not necessarily prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business, after consulting with our Directors, we have decided to adopt a more prudent approach to ensure the Contractual Arrangements remain a domestic investment. Mr. Fu shall give an undertaking to our Company, to enforce such undertaking to:

- (a) continue to maintain his Chinese citizenship for as long as he holds a controlling interest in our Company;
- (b) maintain control of our Company for the purposes of the Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated), or procure the transferee(s) who will become the new PRC controlling shareholder of our Company to provide an undertaking in the same terms and conditions as offered by him to our Company when Mr. Fu makes any transfer or disposal which may result in him ceasing to have control of our Company for the purposes of the Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated); and
- (c) prior to making any of the above transfer or disposal, Mr. Fu shall demonstrate to the satisfaction of our Company that the Contractual Arrangements will not become a foreign investment for the purpose of the FIL (together with all its subsequent amendments or updates, as promulgated).

Based on the above and the aforesaid undertaking to be given by Mr. Fu, the Directors are of the view that (i) the Contractual Arrangements is not in violation of the FIL; and (ii) our Group can maintain control over VIE Entities and receive all economic benefits derived from VIE Entities. The aforesaid undertaking will become effective from the date of the Listing and will remain effective until the earlier of the occurrence of the following events: (i) Mr. Fu ceasing to have control of our Company for the purposes of the FIL (together with all its subsequent amendments or updates, as promulgated); (ii) compliance with the relevant requirements under the FIL (together with all its subsequent amendments or updates, as promulgated) is expressly not required and Hong Kong Stock Exchange has consented to this; (iii) compliance with the undertaking is no longer required, as advised by the Stock Exchange.

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### COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group will adopt the following measures to ensure effective operation and compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements annually;
- (c) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports and interim reports to update our Shareholders and potential investors;
- (d) our Company and our Directors undertake to provide periodic updates in the annual and interim reports, after its Listing, regarding the status of compliance with the applicable laws and regulations;
- (e) our Company will disclose, as soon as possible (i) any updates of changes to the applicable laws and regulations that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the relevant laws and regulations as implemented, specific measures taken by us to fully comply with the such laws and regulations supported by a PRC legal opinion and any material impact on our operations and financial position; and
- (f) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of Raily Beauty Consultation and our VIE Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that one of the Directors, Mr. Fu, is also one of the Registered Shareholders, our Company believes that the Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

- (a) the decision-making mechanism of our Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of our Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

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- (b) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;
- (c) our Company will appoint three independent non-executive Directors, comprising more than one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and the Shareholders as a whole; and
- (d) our Group will disclose in its announcements, circulars and annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Business Cooperation Agreements, it was agreed that, in consideration of the services provided by Raily Beauty Consultation, the VIE Entities will pay service fees to Raily Beauty Consultation. The amount and payment deadline will be determined by Raily Beauty Consultation after considering (i) performance and profitability of the VIE Entities; (ii) the costs and expenses in providing the services, (iii) the degree of promotion of the operations of the VIE Entities; and (iv) other relevant factors. Accordingly, through the Business Cooperation Agreements, Raily Beauty Consultation has the ability, at its sole discretion, to extract 100% of the annual distributable profits of the VIE Entities, after deducting the losses from the previous years (if any) and the statutory contributions (if applicable) subject to applicable PRC laws and regulations.

In addition, under the Exclusive Option Agreements, Raily Beauty Consultation has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of the VIE Entities as Raily Beauty Consultation's prior written consent is required before making any distribution. In the event that the Registered Shareholders receive any profit distribution or dividend from the VIE Entities, the Registered Shareholders must immediately pay or transfer all such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to Raily Beauty Consultation.

Upon the Listing, we own 70% equity interest in each of the VIE Entities and as a result of the aforementioned Contractual Arrangements, our Company has 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.

**OVERVIEW**

We are a leading aesthetic medical service provider in Zhejiang Province, the PRC. We offer a broad range of aesthetic medical services to our clients to meet their different aesthetic and anti-aging objectives. 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; and (iii) aesthetic dermatology services, primarily comprising various aesthetic energy-based procedures.

We have grown our network since our operation commenced in August 2008. As at the Latest Practicable Date, we owned and operated a network of four private for-profit aesthetic medical institutions in the PRC, while three of them were located in Zhejiang Province and one of them was located in Anhui Province. All of our aesthetic medical institutions are operated under our trade names, “瑞麗” and “瑞麗整形”, together with our registered trademark “Raily”.

According to the Frost & Sullivan Report, China was the second largest market for aesthetic medical services in 2018, with approximately 13.5% of the global market of aesthetic medical services in terms of revenue. In addition, it is expected that the aesthetic medical services market in China will grow at a CAGR of approximately 17.3% from 2019 to 2024. The market size for private aesthetic medical service providers in China grew at a CAGR of 24.5% from RMB49.6 billion in 2015 to RMB119.3 billion in 2019 and is expected to grow to RMB281.5 billion in 2024, representing a CAGR of 18.7% from 2019 to 2024. Also, according to the Frost & Sullivan Report, as a province contributing 4% of the population in China, Zhejiang Province’s aesthetic medical services market contributed 7% of the national market in 2019 in terms of revenue, and Hangzhou City ranked sixth in terms of aesthetic medical service revenue in 2019 among all cities in the PRC. Further, according to the Frost & Sullivan Report, the per capita spending of aesthetic medical services in Hangzhou City has grown at a CAGR of 19.2% from 2015 to 2019 and reached RMB340 in 2019, and expected to reach RMB662 in 2024, which is substantially higher than the national per capita spending of aesthetic medical services, being RMB103 in 2019. According to the Frost & Sullivan Report, our Group ranked fourth and fifth in terms of aesthetic medical service revenue in 2019 among all private aesthetic medical service providers in Hangzhou City and Zhejiang Province, respectively. As a result of our brand recognition and more than 12 years of commitment to develop aesthetic medical services in Zhejiang Province, we believe we are well-positioned to capture the growing market as highlighted in the Frost & Sullivan Report.

For the two years ended 31 December 2018, aesthetic surgery services segment was our largest single source of revenue, which contributed approximately RMB56.7 million and RMB57.5 million, respectively, to our revenue. Benefited from (i) the growing social acceptance of aesthetic medical services; (ii) our effective online marketing campaign promoting our aesthetic medical services to young females; and (iii) the continuous innovation and technological developments of the aesthetic medical industry in recent years, which significantly lowered the medical risk of non-surgical aesthetic procedures and shortened the recovery time, compared with aesthetic surgery services, our revenue from



minimally-invasive aesthetic services and aesthetic dermatology services increased significantly during the Track Record Period. Our revenue generated from minimally-invasive aesthetic services amounted to approximately RMB28.9 million, RMB40.3 million, RMB55.9 million and RMB20.2 million for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively; while during the same period of time, our revenue generated from aesthetic dermatology services amounted to approximately RMB24.0 million, RMB41.8 million, RMB58.1 million and RMB18.4 million, respectively.

Through our experienced physicians and medical staff, we provide professional and holistic aesthetic medical solutions bespoke to our clients' particular aesthetic and anti-aging needs. As at 30 June 2020, we had 64 physicians who practiced at our aesthetic medical institutions with an average industry experience of approximately 12 years, including seven chief physicians, 16 associate-chief physicians, 20 attending physicians and 21 resident physicians. We believe our team of qualified and experienced physicians and medical staff, as well as our stringent safety controls, have underpinned our strong reputation as we continue to attract and retain clients and receive industry recognition for our high quality services. Our safe and high-quality aesthetic medical services were evidenced by our accreditation by the CAPA. In 2018, Hangzhou Raily, our flagship aesthetic medical institution in terms of scale of operation and revenue contribution, was awarded as a "5A" institution by the CAPA. Given the extensive scope of review by the CAPA, "5A" institution signifies the front-end status of a private aesthetic medical institution in the PRC in terms of standard of management, security, clinical technology and service quality. Hangzhou Raily was one of the five aesthetic medical institutions in Hangzhou City that were awarded "5A" recognition by the CAPA as at the Latest Practicable Date. In addition, unlike the traditional business model that merely focuses on operation within aesthetic medical institutions, we also operate online shops on a number of e-commerce online platforms to promote our brand and to sale and market our services. Our effective online marketing was evidenced by awards and recognitions we received, such as Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City issued by Meituan, AliHealth Most Popular Medical Institution Award (阿里健康最受歡迎醫療機構獎) issued by AliHealth and Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) issued by SoYoung.com. One of our physicians was also awarded with the Annual High-Profile Aesthetic Medical Physician (年度最具權威修復名醫大咖) by SoYoung.com in 2018.

Our high quality services and stringent safety controls have translated into our low number of client complaints and high number of repeat clients. During the Track Record Period, our medical affairs department handled a total of 138 complaints in relation to our aesthetic medical services from our clients, representing lower than 0.1% of the total number of aesthetic medical procedures performed during the same period. Among these complaints, 109 of which resulted in monetary refund and/or payment of settlement sum. The total amounts of refunds were approximately RMB0.4 million, RMB0.4 million, RMB0.7 million and RMB0.2 million, for the three years ended 31 December 2019 and the six months ended 30 June 2020 respectively, representing approximately 0.4%, 0.2%, 0.4% and 0.3% of our total revenue for the same periods respectively; while the total amount of settlements sum paid was approximately RMB61,000, RMB89,000, RMB100,000 and RMB176,000 for the three years ended 31 December 2019 and the six months ended 30 June

2020 respectively, all representing less than 0.1% of our total revenue for the same periods respectively. Our active clients, defined as clients who have purchased at least one aesthetic medical procedure in the relevant period, have increased from 29,231 in 2017 to 47,785 in 2018, and further increased to 69,835 in 2019. The number of our repeat clients, who were also our active clients in the relevant period and had previously purchased at least one aesthetic medical procedure, has increased from 15,172 in 2017 to 22,555 in 2018, and further increased to 35,729 in 2019. Since we had temporarily suspended all services of our aesthetic medical institutions since 1 February 2020 until the respective partial resumption of our aesthetic medical institutions in March 2020, the number of our active clients has decreased from 36,230 for the six months ended 30 June 2019 to 31,080 for the six months ended 30 June 2020; while the number of our repeat clients has also decreased slightly from 18,574 for the six months ended 30 June 2019 to 17,152 for the six months ended 30 June 2020.

To a lesser extent, we also provide aesthetic medical management consulting services to aesthetic medical institutions and physicians since December 2017. For the three years ended 31 December 2019 and the six months ended 30 June 2020, revenue generated from aesthetic medical management consulting services amounted to nil, RMB12.7 million, RMB7.5 million and RMB1.3 million, respectively, representing nil, 8.0%, 3.9% and 2.1% of our revenue for the same periods, respectively. As at the Latest Practicable Date, we were providing management consulting services to nine aesthetic medical institutions, none of which was located in any of the cities where our aesthetic medical institutions locate; and save for the one located in Taizhou City in Zhejiang Province, none of which was located in Zhejiang Province or Anhui Province. Two of those aesthetical medical institution clients were subsidiaries of a leading aesthetic medical service provider group in the PRC listed on the NASDAQ Stock Market. According to the Frost & Sullivan Report, geographical affinity is one of the important competitive factors in the aesthetic medical service market. We therefore are of the view that given the difference in location of our clients of aesthetic medical management consulting services and our aesthetic medical institutions, our clients would not directly compete with us.

## **OUR COMPETITIVE STRENGTHS**

We believe that the following competitive strengths are critical to our current success and crucial to our future growth:

### **Leading aesthetic medical institution group in Zhejiang Province with strong brand recognition and well-positioned to capture the growing aesthetic medical service market in the PRC**

We are one of the leading private aesthetic medical institution groups in Zhejiang Province operated under the brand “Raily”. According to the Frost & Sullivan Report, we ranked fourth and fifth in terms of aesthetic medical service revenue in 2019 among all private aesthetic medical service providers in Hangzhou City and Zhejiang Province, respectively.

Our Group's history can be traced back to August 2008, when our founder, Mr. Fu, started to develop aesthetic medical business by acquiring Raily Tiange as our first aesthetic medical institution in Hangzhou City. With the growing demand of aesthetic medical services in the region, we started to expand our aesthetic medical business in Zhejiang Province by establishing our second aesthetic medical institution, Ruian Raily, in Ruian City in March 2013; and our second aesthetic medical institution in Hangzhou City, Hangzhou Raily, in August 2013. In July 2015, we further expanded our aesthetic medical business to areas outside Zhejiang Province and established our fourth aesthetic medical institution, Wuhu Raily, in Wuhu City, Anhui Province. Our aesthetic medical institutions are strategically located in markets with demographic, economic or social characteristics that are favourable to the aesthetic medical service market. According to the Frost & Sullivan Report, disposable income of urban residents in Hangzhou City, Ruian City and Wuhu City has grown at the higher CAGR of 8.1%, 8.4% and 9.0%, respectively, during 2015 to 2019, compared to that of East China, which was 8.1% during 2015 to 2019.

Our success is evident in our significant growth in both our revenue and our client base during the three years ended 31 December 2019. Our revenue increased from RMB112.9 million for the year ended 31 December 2017 to RMB158.9 million for the year ended 31 December 2018, and further to RMB191.2 million for the year ended 31 December 2019. Our active client, defined as clients who have received at least one aesthetic medical procedure in the relevant period, has increased from 29,231 in 2017 to 47,785 in 2018, and further increased to 69,835 in 2019. The number of our new clients, who have received at least one aesthetic medical procedure in the relevant period for the first time, has increased from 14,059 in 2017 to 25,230 in 2018, and reached 34,106 in 2019.

As one of the market leaders in Hangzhou City and Zhejiang Province with a strong brand recognition, we believe that we are well-positioned to benefit from the favourable tailwinds, including growing social acceptance of aesthetic medical services, and able to attract new clients in the aesthetic medical service market and clients to switch to us from less-renowned competitors. We also believe our industry reputation can attract talented physicians and medical staff to join our Group. Several of our physicians sit on different boards of committee of industry associations, such as the Chinese Medical Doctor Association and the CAPA. In addition, one of our physicians was awarded with the Annual High-Profile Aesthetic Medical Physician (年度最具權威修復名醫大咖) by SoYoung.com in 2018.

According to the Frost & Sullivan Report, the penetration rate of aesthetic medical services in the PRC is still very low compared with other developed countries, where the aesthetic medical procedures per thousand people was only 14.5 in 2018 compared to 52.2 in United States and 89.2 in South Korea, possessing enormous room for development. The growth of the aesthetic medical service market in China has been driven by (i) the growing popularity and social acceptance of aesthetic medical services; (ii) the increasing disposable income and level of consumption; and (iii) the development and maturity of aesthetic medical technology. Further, according to the Frost & Sullivan Report, the total revenue generated by private aesthetic medical

service market in China grew at a CAGR of 24.5% from 2015 to 2019 and is expected to grow at a CAGR of 18.7% from 2019 to 2024. The total revenue generated by private aesthetic medical service market in the East China grew at a CAGR 25.7% from 2014 to 2018 and is expected to grow at a CAGR of 25.9% from 2019 to 2024. As a province contributing 4% of the population in China, Zhejiang Province's aesthetic medical service market contributed 7% of the national market in 2019 in terms of revenue and Hangzhou City ranked sixth in terms of aesthetic medical service revenue in 2019 among all cities in the PRC. Please refer to the section headed "Industry Overview" for further details of the aesthetic medical service market.

We believe that our market leadership and wide range of capabilities place us in a prime position to capitalise on these trends, thereby further fueling our profitability and expansion. Moreover, drawing on our success in the current markets, we believe that we can penetrate the fast-growing aesthetic medical service market in the rest of Zhejiang Province.

**Ability to maintain high client satisfaction and well-established brand awareness with our safe and high-quality services**

We are committed to providing safe and high-quality aesthetic medical services and offering exceptional client experience through our team of high-caliber physicians and medical staff, stringent safety controls and one-stop, tailor-made aesthetic medical services.

*High-caliber professionals:* We have built an experienced team of medical professionals at the forefront of the aesthetic medical industry in China. As at 30 June 2020, we had 64 physicians who practiced at our aesthetic medical institutions with an average industry experience of approximately 12 years, including seven chief physicians, 16 associate-chief physicians, 20 attending physicians and 21 resident physicians. Some of our physicians are renowned experts in their field of practice. Our physicians also enjoy the full support of our skillful medical staff which primarily includes assistant physician (執業助理醫師), medical graduates, nurses and pharmacists. As at 30 June 2020, we had 103 medical staff. We believe we had a generally stable team of key physicians and other medical staff during the Track Record Period. We believe our high-caliber team of key physicians and medical staff is crucial to the provision of consistently high-quality services to our clients. We have a systematic training program that provides our physicians and medical staff with comprehensive trainings by internal and external experts. We place great emphasis on retaining our physicians and medical staff by providing them with attractive career development opportunities and professional working environment.

We have maintained long-term and close relationships with various medical industry associations in the PRC, namely, the CAPA, the Chinese Medical Doctor Association (中國醫師協會), Chinese Medical Association (中華醫學會), Chinese Association of Rehabilitation Medicine (中國康復醫學會), the Zhejiang Medical Doctor Association (浙江省醫師協會) and ZAPA. In particular, several members of our senior management sit on different boards of committee in these industry

associations. Our Chairman, 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, and was appointed as the chairman of the Financial Investment Branch of the CAPA in September 2016 and as a managing director of the Standing Council of the CAPA in October 2016. In addition, our executive Director, Mr. Song Jianliang, was appointed as a member or vice-chairperson of various committees of Chinese Medical Association, Chinese Association of Rehabilitation Medicine, Zhejiang Medical Association, ZAPA and CAPA. For example, he was appointed as a member of the Reparative and Reconstructive Surgery Committee of the Chinese Association of Rehabilitation Medicine (修復重建外科專業委員會委員) in October 1996, a member of the first session of the Standardization Committee of CAPA (中國整形美容協會標準化工作委員會第一屆委員) in September 2019, and the vice president of the second committee of the Aesthetics and Plastics Medical Doctors Subcommittee of Zhejiang Medical Doctors Association (浙江省醫師協會美容與整形醫師分會第二屆委員會副會長) in October 2019.

*Stringent safety controls:* The safety of our aesthetic medical services remains our top priority. We undergo a stringent evaluation and approval process to assess the risks involved before introducing any new aesthetic medical service equipment or procedure. We have implemented standardized clinical quality control procedures across each of our aesthetic medical institutions. Our physicians and medical staff receive training on these procedures from time to time and are required to strictly follow them in daily operations. Please refer to the paragraph headed “Risk Management and Internal Control” in this section for more details. Our stringent safety controls are evidenced by our minimal complaints in relation to our performance of aesthetic medical procedures and high number of repeat clients. During the Track Record Period, our medical affairs department received and handled a total of 138 complaints in relation to our performance of aesthetic medical procedures from our clients, representing lower than 0.1% of the total number of aesthetic medical procedures performed during the same period, all of which have been settled. The number of our repeat clients who have received at least one aesthetic medical procedure in the relevant period has increased from 15,172 in 2017 to 22,555 in 2018, and reached 35,729 in 2019. Albeit under the adverse impact of COVID-19, the number of our repeat clients has only decreased slightly from 18,574 during the six months ended 30 June 2019 to 17,152 during the six months ended 30 June 2020.

*One-stop, tailor-made services:* We provide a broad range of aesthetic medical services, including aesthetic surgery services, minimally-invasive aesthetic services, aesthetic dermatology services and aesthetic dentistry services. We believe that our diversified services promote client loyalty and facilitate effective cross-selling, thereby driving repeat business. In addition, our one-stop capabilities allow us to provide our clients with tailor-made services. We conduct extensive consultations with our clients to understand their desired results and recommend suitable and personalized service plans to meet each client’s specific needs.



*Exceptional client experience:* We are committed to maintaining the high quality of our client experience by, among other things, offering friendly, comfortable and helpful client care and services. We have established stringent standards for service quality of our client service personnel and meticulously collecting feedback from our clients. In particular, our client service team provides extensive consultation before devising the most suitable service plan for our clients and make follow up calls and/or text messages after the completion of our services in order to obtain our clients' feedback and provide necessary assistance for further needs the client may have. The high quality of our client experience is also evidenced by the high ratings and reviews at our online shops on several leading third party platforms. For example, as at the Latest Practicable Date, on certain e-commerce online platforms, our online shops received an average review rating of 4.0 stars or above out of 5 stars. Our client service team closely monitors the feedbacks on our online shops and provides timely explanation and responses to the clients.

Our safe and high-quality services is also evidenced by our accreditation by the CAPA. In 2018, Hangzhou Raily was awarded as a “5A” institution by the CAPA. Since 2016, CAPA, a national-level civil society group approved by the National Health Commission and registered with the Ministry of Civil Affairs of the PRC, has begun to review the participating aesthetic medical institutions annually and categories the aesthetic medical institutions by using grading system with “5A” being the highest. Hangzhou Raily was one of the five aesthetic medical institutions being awarded as “5A” institution by the CAPA in Hangzhou City as at the Latest Practicable Date. Given the extensive scope of review by the CAPA, “5A” institution signifies the front-end status of a private aesthetic medical institution in China in terms of standard of management, security, clinical technology and service quality. In addition, Hangzhou Raily was awarded the A level Aesthetic Medical Institution in Zhejiang and Standardized Medical Quality Outstanding Contribution Award (浙江省醫療美容機構A等級評價規範醫療質量突出貢獻獎) by the ZAPA in 2019.

**Scalable business supported by centralized management structure and standardized operating procedures**

We have adopted a two-tier centralized management structure with central decision making authority at the headquarters level and delegated management and operational power at the aesthetic medical institution level. Our central management at the headquarters formulates our overall strategies and business plans, makes key management decisions and oversees and coordinates the implementation of our overall strategies and business plans, as well as group-wide policies and procedures, across our aesthetic medical institutions. Specifically, our central management are mainly responsible for:

- the formulation of our overall strategies and business plans;
- the key management decisions such as appointment of key management personnel at both headquarters level and institution level;



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- the formulation of standardized branding strategies, recruitment and performance review standards as well as financial management policies;
- the implementation of standardized clinical quality control procedures relating to the performance of our aesthetic medical procedures;
- the adoption of a systematic staff training program;
- the implementation of centralized bargaining on the terms and conditions of procurement of aesthetic medical service equipment and certain supplies at the headquarters level to achieve economies of scale and to better control the quality of the medical supplies we procure; and
- the adoption of standardized operational procedures for client services and for handling client complaints and other feedback.

At the institution level, we have established a standardized operational structure across our aesthetic medical institutions with delegated management and operational power to each institution. Specifically, the operational structure of our aesthetic medical institutions is substantially identical, with each department at the aesthetic medical institution level having certain delegated management and operational power and directly reporting to the corresponding department at our headquarters.

We believe our two-tier centralized management structure helps us to offer consistent and high-quality services across our aesthetic medical institutions with a uniform brand image. This structure also ensures that our Group strategy and business plans are well-coordinated and effectively supervised by our headquarters and reduces operational risks, while preserving management and operational flexibility at the individual institution level for better adaptability to local conditions and context to ensure efficient implementation and daily operations.

The high degree of standardization across our aesthetic medical institutions has enabled us to quickly and successfully expand our operations and replicate our success without compromising our clinical quality or service standards. We opened three new aesthetic medical institutions from 2013 to 2015. In addition, we shared our management and operational experience with third-party aesthetic medical institutions and physicians through the provision of aesthetic medical management consulting services. As at the Latest Practicable Date, we were providing management consulting services to nine aesthetic medical institutions, two of which were subsidiaries of a leading aesthetic medical service provider group in the PRC listed on the NASDAQ Stock Market. Please refer to the paragraph headed “Aesthetic Medical Management Consulting Services” in this section for more details.

**Online retail platforms with strong marketing team to efficiently sale and market our services**

Unlike the traditional business model that merely focuses on conducting through the aesthetic medical institutions, we also operate online shops on a number of e-commerce online platforms to promote our brand and to sale and market our services. For the three years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB6.8 million, RMB23.5 million, RMB31.9 million and RMB10.7 million, representing approximately 6.2%, 14.6%, 17.5% and 17.9%, respectively of our total revenue were contributed from our online shops.

We believe that clients' actual experiences and reviews of our services are exceptionally important in promoting our services to potential clients and establishing confidence in our services among potential clients. One of the key features of these online platforms is that clients can share their good reviews and feedbacks they have experienced with us. This enables us to promote our services and attract clients without incurring extra advertising efforts. As at the Latest Practicable Date, our online shops received an average review rating of 4.0 stars or above out of 5 stars on certain e-commerce online platforms.

Following our target clients' social and purchasing pattern, we sell our services through online channels to allow them to browse our services and make purchases "24/7". Our online shops can provide convenience to our clients by offering instant purchases, enhance potential clients' awareness of our brands and attract and direct online clients traffic to our aesthetic medical institutions. Further, our clients can contact our online sales personnel to resolve their general enquiries in relation to our services offered. To promote our aesthetic medical services effectively, we conduct online marketing campaigns targeting young females, as the main consumer group of aesthetic medical services in China is the female group aged 20 to 54 according to the Frost & Sullivan Report.

Due to our continuous efforts on online marketing and effective online marketing strategy, according to the Frost & Sullivan Report, our client acquisition costs per client, being the promotion and marketing expenses divided by number of new clients obtained, were approximately RMB700 for 2019, which was much lower than the industry average in the PRC, being in the range of RMB3,000 to RMB5,000. In addition, the Group's marketing expenses to revenue of aesthetic medical services ratio for 2019 was approximately 12.7% which was much lower than the industry average in the PRC at approximately 21.9% for 2019 according to the Frost & Sullivan Report. Our effective online marketing is also evidenced by awards and recognition we received from renowned e-commerce platform, such as Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City issued by Meituan, AliHealth Most Popular Medical Institution Award (阿里健康最受歡迎醫療機構獎) issued by AliHealth and Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) by SoYoung.com. One of our physicians was also awarded with the Annual High-Profile Aesthetic Medical Physician (年度最具權威修復名醫大咖) by SoYoung.com in 2018.

**Experienced senior management team with a proven track record of success and strong execution capabilities**

Our senior management team comprises a group of experienced and dedicated professionals with in-depth understanding of the aesthetic medical service industry in the PRC. Mr. Fu, our chairman and an executive Director, has over 20 years of experience in the medical industry, and founded our Group with a vision to provide safe and high-quality aesthetic medical services. Mr. Fu's active involvement in our daily operations, management and strategic planning has established a strong foundation for our success. Mr. Yu, our chief executive officer and an executive Director, has over 10 years of experience in aesthetic medical service industry. Being also the founder of Guangzhou Yingjieshi, Mr. Yu provides valuable experience and business connection in the continuous development of our management consulting services business. Mr. Song Jianliang, an executive Director, has more than 20 years of experience in hospital management, and in particular, has extensive experience in managing hospitals which are specialised in aesthetic surgery. Mr. Song was appointed as a member of the Reparative and Reconstructive Surgery Committee of the Chinese Association of Rehabilitation Medicine (修復重建外科專業委員會委員) in October 1996, a member of the first session of the Standardization Committee of CAPA (中國整形美容協會標準化工作委員會第一屆委員) in September 2019, and the vice president of the second committee of the Aesthetics and Plastics Medical Doctors Subcommittee of Zhejiang Medical Doctors Association (浙江省醫師協會美容與整形醫師分會第二屆委員會副會長) in October 2019. Mr. Song joined our Group in January 2008 and has been working as the dean of our four aesthetic medical institutions. Please refer to the section headed "Directors and Senior Management" in this prospectus for further details of our senior management team. In addition to our experienced and dedicated senior management team, our high-caliber physicians and medical staff also take an active role in devising and overseeing the safety and quality of our services.

Under the leadership of our executive Directors and senior management, Hangzhou Raily was rated as a 5A aesthetic medical institution by the CAPA in 2018 was awarded the Zhejiang Aesthetic Medical Institution A-level Standard Medical Quality Contribution Award (浙江省醫療美容機構A等級評價規範醫療質量突出貢獻獎) by the Zhejiang Association of Plastics and Aesthetics Industry (浙江省整形美容行業協會) in March 2019 and we also started the provision of aesthetic medical management consulting services through Guangzhou Yingjieshi and Ningbo Zhuerli during the Track Record Period. We believe that the experience, professionalism and strong execution capabilities of our management team will continue to drive our growth.

## **OUR STRATEGIES**

We plan to consolidate and expand our market position in China through implementing the following strategies:

### **Expanding our aesthetic medical institutions network**

According to the Frost & Sullivan Report, the total revenue generated by private aesthetic medical service market in China grew at a CAGR of 24.5% from 2015 to 2019 and is expected to grow tremendously at a CAGR of 18.7% from 2019 to 2024. Please refer to the section headed “Industry Overview” for further details. We believe that we are well-positioned to capitalise on such anticipated growth in Zhejiang Province. Leveraging on our successful track record and our brand image, we intend to expand our operation in Zhejiang Province and other cities in the PRC by renovation and expansion of our existing aesthetic medical institutions, organic growth and strategic acquisitions.

### *Renovation and expansion of existing aesthetic medical institutions*

We intend to renovate certain areas of our existing aesthetic medical institutions and expand our Hangzhou Raily, Raily Tiange and Wuhu Raily with the extent of expansion in the approximate GFA of 1,500 sq.m., 1,000 sq.m. and 1,000 sq.m., respectively, in order to improve the physical environment of our aesthetic medical institutions and increase our service capacity.

According to the Frost & Sullivan Report, it is an industry norm that aesthetic medical institution be regularly renovated in order to provide a fresh brand image and a sense of novelty to clients. We believe it is vital to provide our clients with a comfortable environment at our aesthetic medical institutions to enhance their user experience, which we consider as one of our competitive strengths. Therefore, we intend to carry out renovation of certain frequently used areas of Hangzhou Raily, Raily Tiange and Wuhu Raily to improve their physical environment and enhance user experience. Moreover, the utilization rate of Hangzhou Raily, Raily Tiange and Wuhu Raily has reached approximately 82.0%, 83.4% and 91.1%, respectively, for the year ended 31 December 2019. There is therefore a need to expand our service capacity in these aesthetic medical institutions to cater for new businesses. We expect to achieve such expansion by leasing available premises nearby our existing aesthetic medical institutions. We also intend to renovate Ruian Raily to expand our service capacity for aesthetic dermatology services to meet clients’ increasing demand. After such renovation and expansion of our aesthetic medical institutions, we believe we can enhance our service capacity, our service offering and market share by creating more operation rooms and service rooms, procuring additional medical equipment and furniture, and recruiting more physicians, medical staff and other supporting staff.

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Set out below are certain details of the renovation and expansion plan for each of our aesthetic medical institutions:

	Estimated existing GFA to be renovated (sq.m.)	Estimated GFA of expansion (sq.m.)	Estimated number of additional rooms	Estimated number of additional physicians	Estimated number of additional medical staff and other supporting staff	Estimated number of new equipment to be acquired	Estimated increase in service capacity in terms of service hours in a year <sup>(8)</sup> (hours)
Hangzhou Raily <sup>(1)</sup>	100	1,500	15 service rooms <sup>(5)</sup>	3	27	3 <sup>(6)</sup>	46,150 <sup>(9)</sup>
Ruian Raily <sup>(2)</sup>	2,060	—	—	2	13	7 <sup>(6)</sup>	N/A
Raily Tiange <sup>(3)</sup>	700	1,000	One operation room and 10 service rooms <sup>(5)</sup>	4	16	5 <sup>(7)</sup>	34,790 <sup>(10)</sup>
Wuhu Raily <sup>(4)</sup>	500	1,000	12 service rooms <sup>(5)</sup>	5	25	4 <sup>(6)</sup>	35,500 <sup>(11)</sup>

*Notes:*

- (1) The renovation and expansion plan primarily involves the renovation of the existing reception area in the approximate GFA of 100 sq.m. and the additional expansion area in the approximate GFA of 1,500 sq.m.; the acquisition of relevant equipment and hiring of additional workforce.
- (2) The renovation plan primarily involves the renovation of the original areas of Ruian Raily before its last expansion in March 2019 in the approximate GFA of 2,060 sq.m.. Considering the rapidly increasing utilisation rate of Ruian Raily from approximately 23.1% for the year ended 31 December 2018 to approximately 70.9% for the year ended 31 December 2019; and the rapidly increasing revenue generated from aesthetic dermatology services in Ruian Raily from approximately RMB6.2 million for the year ended 31 December 2018 to approximately RMB13.2 million for the year ended 31 December 2019, we intend to carry out renovation of such areas in order to enhance our service capacity of aesthetic dermatology services to meet the increasing demand of such services in Ruian Raily by re-planning the existing service rooms, acquiring additional aesthetic medical equipment and hiring additional physicians and staff for aesthetic dermatology services.
- (3) The renovation and expansion plan primarily involves the renovation of the existing reception area, service rooms, operation rooms and certain common area in the approximate GFA of 700 sq.m. and the additional expansion area in the approximate GFA of 1,000 sq.m.; the acquisition of relevant equipment and hiring of additional workforce.
- (4) The renovation and expansion plan primarily involves the renovation of the existing reception area and the certain service rooms in the approximate GFA of 500 sq.m. and the additional expansion area in the approximate GFA of 1,000 sq.m.; the acquisition of relevant equipment and hiring of additional workforce.
- (5) Service rooms include consultation rooms, injection rooms, treatment rooms and other service rooms.
- (6) Equipment includes Q-Switch laser equipment for reducing pigmentation and brighten skin tone, skin hydrating equipment and radiofrequency equipment for thermage treatment.
- (7) Equipment includes laser equipment for hair removal and skin hydrating equipment.

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- (8) Based on our Directors' best estimates, the estimated increase in service capacity refers to the additional number of service hours we can provide in our aesthetic medical institution in one year assuming the renovation and expansion plan for the respective aesthetic medical institution has been fully completed, which is calculated based on the product of: (i) the number of additional servicing sites created for a specific type of aesthetic medical procedures (being the number of operation rooms for aesthetic surgical procedures and number of hospital beds dedicated for aesthetic injection procedures and energy-based procedures respectively); (ii) the maximum number of servicing hours per day per servicing site added (being 8 hours for operation room and 10 hours for hospital beds); and (iii) 355 working days in one year.
- (9) The estimated increase in service capacity represents approximately 38% of the service capacity of Hangzhou Raily in terms of number of service hours for the year ended 31 December 2019.
- (10) The estimated increase in service capacity represents approximately 102% of the service capacity of Raily Tiange in terms of number of service hours for the year ended 31 December 2019.
- (11) The estimated increase in service capacity represents approximately 104% of the service capacity of Wuhu Raily in terms of number of service hours for the year ended 31 December 2019.

We estimated that the total cost for the renovation and expansion works for all four of our aesthetic medical institutions would be approximately RMB55.0 million (equivalent to approximately HK\$65.5 million), which are expected to be primarily funded with the net proceeds of the Global Offering in the sum of approximately HK\$15.7 million. Set out below is a breakdown of the estimated investment amount for renovation and expansion of each of our aesthetic medical institutions:

	Estimated investment amount (RMB'000)				
	Hangzhou Raily	Ruian Raily	Raily Tiange	Wuhu Raily	Total
Renovation and furniture costs	5,000	2,600	4,000	3,600	15,200
Additional aesthetic medical equipment costs	1,250	2,900	2,600	1,350	8,100
Additional physicians and staff costs per year	5,000	2,500	4,000	4,500	16,000
Additional rental fee per year	3,000	—	1,600	1,200	5,800
Working capital	<u>3,000</u>	<u>1,500</u>	<u>3,000</u>	<u>2,400</u>	<u>9,900</u>
Total	<u>17,250</u>	<u>9,500</u>	<u>15,200</u>	<u>13,050</u>	<u>55,000</u>

We carried out renovation of our aesthetic medical institutions on an as needed basis taken into account factors including the existing physical condition of the premises and the sufficiency of the existing service capacity of the premises. During the Track Record Period, we have completed renovation and expansion of Hangzhou Raily and Ruian Raily in August 2018 and March 2019, respectively, and the costs



incurred were approximately RMB6.4 million and RMB6.0 million, respectively. Such costs mainly comprised (i) the costs for renovation of the expanded area in the approximate GFA of 350 sq.m. and the costs for minor touch-ups of the then existing area of Hangzhou Raily in the approximate GFA of 470 sq.m.; (ii) the costs for renovation of the expanded area in the approximate GFA of 801 sq.m. for Ruian Raily; and (iii) the relevant respective costs for acquiring additional aesthetic medical equipment and hiring additional workforce, but excluding the additional rental fees (as the case may be) and working capital involved for the expanded area. Except for (i) the last renovation and expansion of Hangzhou Raily and Ruian Raily abovementioned; (ii) the renovation of Raily Tiange for the change of its operation venue and its expansion which was completed in December 2015; and (iii) minor repair and renovation works carried out from time to time, there was no major renovation and expansion work carried out for our aesthetic medical institutions since their respective commencement of operation.

We intend to undertake the renovation and expansion works in phases so that we can continue to provide services during normal operating hours and perform structural works after operating hours in order to minimise impact of such works to our business. Due to the close proximity between Hangzhou Raily and Raily Tiange with a distance of approximately five kilometers apart from each other, we may also conduct renovation and expansion work in Hangzhou Raily and Raily Tiange in different times so that we could temporarily divert our businesses from one to another as needed to reduce the impact of such works on our business in Hangzhou City. We expect the whole renovation and expansion works for each existing aesthetic medical institution to span for a period of approximately two to six months and we consider there will not be material disruption to our operations.

#### *Organic growth*

We believe that our market leadership and wide range of capabilities place us in a prime position to capitalise the growing aesthetic medical services market in the PRC. We plan to establish a new aesthetic medical institution qualified as a hospital under the relevant PRC laws and regulations in Shanghai City which will provide full range of services our Group is currently providing. According to the Frost & Sullivan Report, Shanghai City, being the core centre of the Yangtze River Delta Economic Zone, is a mature market for aesthetic medical services with the level of consumption in aesthetic medical services much higher than the average consumption in the PRC; and Shanghai City ranked second in terms of aesthetic medical service revenue in 2019 among all cities in the PRC. In addition, according to the Frost & Sullivan Report, the per capita spending of aesthetic medical service in Shanghai City has grown at a CAGR of 21.7% from 2015 to 2019 and reached RMB338 in 2019, and expected to reach RMB804 in 2024, which is substantially higher than the national per capita spending of aesthetic medical service, being RMB103 in 2019. The market of private aesthetic medical service market in Shanghai City has grown from RMB2.1 billion in 2015 to RMB5.1 billion in 2019, representing a CAGR of 24.5%, and is estimated to reach RMB12.4 billion in 2024 at a CAGR of 19.4%. Further, driven by the presence of a number of public hospitals renowned for their aesthetic medical procedures in

Shanghai City, the aesthetic medical services market has grown rapidly and became one of the leading markets in China. Our Directors thus believe that by establishing an aesthetic medical hospital in Shanghai City is expected to boost the client's confidence, enhance our brand influence and further reinforce our Group's corporate profile, which in turn allows us to further attract clients and expand our business in China.

There are four types of aesthetic medical institutions under the regulatory regime in the PRC, namely, aesthetic medical hospitals, aesthetic medical out-patient departments, aesthetic medical clinics and aesthetic medical departments, each with different requirements in terms of, among others, number of specialized bed or chairs, specific clinical departments and number of physicians and medical staff. Among which, aesthetic medical hospital is the type of aesthetic medical institutions which has the highest level institutional requirement and is most scalable. For further details of the basic requirements for different types of aesthetic medical institutions, please refer to the section headed "Regulatory Overview — Regulations on the Aesthetic Medical Services — Basic standard for aesthetic medical institution and aesthetic medical department (for trial implementation)" in this prospectus. According to Frost & Sullivan Report, consumers for aesthetic medical services tend to establish confidence more easily in scalable aesthetic medical institutions with good market reputation. As such, we plan to establish an aesthetic medical hospital in Shanghai City, rather than other types of aesthetic medical institutions, so that we could maximise our brand influence. As at the Latest Practicable Date, two out of four of our aesthetic medical institutions, namely Hangzhou Raily and Ruian Raily, are aesthetic medical hospitals. We intend to follow strictly the requirements and qualifications stipulated in the relevant PRC laws and regulations in establishing such aesthetic medical hospital. Based on the current regulatory environment, our Directors understand that the regulatory requirements and qualifications for establishing and operating aesthetic medical hospital in Shanghai City are materially similar to that in Zhejiang Province, which include, the medical institution to achieve the required size and scale in terms of, among others, GFA, paid-up capital, number of qualified physicians and medical staff, number and types of surgery equipment and machinery and the types of medical services provided. Our Directors believe that our Group's years of track record in establishing and operating aesthetic medical institutions, including two aesthetic medical hospitals, namely Hangzhou Raily and Ruian Raily, in Zhejiang Province; and our Group's current scale of operation and reputation, have given us the necessary industry experience, professional capabilities and resources to establish a new aesthetic medical hospital in Shanghai City, specifically in recruiting and attracting qualified talents, locating suitable premises and sourcing appropriate equipment and machinery. Thus, based on the current market condition and regulatory environment, our Directors believe that the proposed aesthetic medical hospital in Shanghai City can meet the relevant requirements and qualifications and obtain relevant operation licenses according to our implementation plan. In addition, as advised by our PRC Legal Advisers, there will not be material legal impediment in obtaining relevant operation licenses for the proposed aesthetic medical hospital in Shanghai City if the application documents have been submitted to the relevant authorities in accordance with applicable laws and regulations.

Based on the Frost & Sullivan Report, in December 2019, there were approximately 400 registered aesthetic medical service providers in Shanghai City among which less than 5% were aesthetic medical hospitals. However, according to the Frost & Sullivan Report, the private aesthetic medical services market in Shanghai City is highly concentrated by the top players where the top five market participants accounted for approximately 38.1% of the market share in terms of revenue of aesthetic medical services in Shanghai City in 2019 and two of which have established aesthetic medical hospital in Shanghai City. In addition, there were only two listed aesthetic medical service providers which operated aesthetic medical institutions in Shanghai City and only two aesthetic medical institutions in Shanghai City that were awarded “5A” recognition by the CAPA as at the Latest Practicable Date. As such, our Directors are of the view that scalable and recognised aesthetic medical hospitals in Shanghai City are under great demand. Given the market demand in Shanghai City and our established brand and market recognition in Zhejiang Province, we believe we can replicate our success in Shanghai City through establishing an aesthetic medical hospital and compete with other existing aesthetic medical service providers in Shanghai City. In order to capture the market demand in Shanghai City, we intend to implement the following strategies:

- (i) We plan to carry out intense brand marketing and promotion activities beginning from the three months prior to the commencement of operation of the new hospital in order to increase the exposure and awareness of our brand in Shanghai City and to attract new clients. Being one of the leading private aesthetic medical institution groups in Zhejiang Province operated under the brand “Raily” and ranked fourth and fifth in terms of aesthetic medical service revenue in 2019 among all private aesthetic medical service providers in Hangzhou City and Zhejiang Province, respectively, our Directors believe that our brand is well established among the medical aesthetic service providers in the PRC. With only two listed aesthetic medical service providers which operated aesthetic medical institutions in Shanghai City and only two aesthetic medical institutions in Shanghai City that were awarded “5A” recognition by the CAPA as at the Latest Practicable Date, our Directors believe our Group’s 5A” recognition by the CAPA and listing status would enable us to build our reputation in Shanghai City quickly through effective brand marketing and promotion activities.

Leveraging our effective online marketing strategy, we intend to focus brand marketing and promotion activities on online marketing which would include promotion campaigns on online retail platforms, collaborations with online influencers or key opinion leaders and live streaming of customer experience. Historically, our effective online marketing efforts, which are demonstrated by our client acquisition costs per client being much lower than industry average in 2019 according to the Frost & Sullivan Report, have allowed us to obtain strong brand recognition online which include receiving various awards and recognitions from renowned e-commerce platforms, such as Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City issued by Meituan, AliHealth Most Popular Medical Institution Award (阿里

健康最受歡迎醫療機構獎) issued by AliHealth and Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) by SoYoung.com, and receiving high review rating for our online shops on certain renowned e-commerce online platforms. Our Directors believe that our strong brand recognition online, coupled with our effective online marketing, would enable us to efficiently establish our position and boost our sales of aesthetic medical services in Shanghai City. We also plan to put in marketing efforts through out-of-home advertisements in Shanghai City to further boost brand recognition in the new market.

- (ii) As aesthetic dermatology services and minimally-invasive aesthetic services, as compared to aesthetic surgery services, are more easily marketed through offering free trials and usually require repeated visits to achieve or maintain the desired aesthetic effects, such services are comparatively more efficient to attract new clients and repeat clients. Thus, during the initial period after the commencement of operation of our hospital in Shanghai City, we intend to focus our resources in the provision of a wide range of aesthetic dermatology services and minimally-invasive aesthetic services with our various aesthetic medical service equipment and experienced physicians and medical staff. While for aesthetic surgery services, we intend to focus on our few reputable procedures, such as lipoplasty/fat transfer procedure, due to which we were awarded the Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) by SoYoung.com in 2019. Our Directors believe such operational focus in the initial stage of operation would facilitate us to accumulate clients and seize market share in Shanghai City in a short period of time and would also enable us to continuously enhance our core competencies and develop new strengths in the new market.
- (iii) We intend to attract new clients and build our client base quickly in Shanghai City by offering competitive pricing of our focused procedures abovementioned and by offering free trials for our aesthetic dermatology services and minimally-invasive aesthetic services which usually require repeated visits to achieve or maintain the desired aesthetic effects, at the initial stage of our operation in Shanghai City. Due to our continuous efforts on online marketing and effective online marketing strategy, according to Frost & Sullivan Report, our client acquisition costs per client, being the promotion and marketing expenses divided by number of new clients obtained, were approximately RMB700 for 2019, which was much lower than the industry average in the PRC, being in the range of RMB3,000 to RMB5,000. Leveraging on our relatively low client acquisition costs per client, our Directors believe that we are able to offer competitive pricing while maintaining an acceptable profit margin at the initial stage of our operation in Shanghai City in order to attract new clients and build our reputation in the new market. Notwithstanding our competitive pricing offered, we strive to offer high-quality services by adopting the same standards and requirements of our “5A” medical institution, recognition given by CAPA. As there were only two aesthetic medical service providers in

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Shanghai City being awarded “5A” recognition by the CAPA, we believe our high-quality services at competitive price would enable us to build our reputation and establish our client base in Shanghai City quickly.

The following table sets forth the estimated details of our intended expansion plan for establishing a new aesthetic medical hospital in Shanghai City:

Location	Current status	Estimated scale	Expected time of opening	Estimated total investment amount and source of funding
Shanghai City	Fundraising and location selection stage	<ul style="list-style-type: none"> <li>— GFA: 5,000 to 5,500 sq.m.</li> <li>— 30 to 40 treatment rooms and 8 to 10 operation rooms</li> <li>— 15 to 20 physicians</li> <li>— primary services include aesthetic surgery services, minimally-invasive aesthetic services, aesthetic dermatology services and aesthetic dental services</li> </ul>	2nd quarter of 2023	Approximately RMB55.0 million (equivalent to approximately HK\$65.5 million) (approximately HK\$15.7 million from net proceeds of the Global Offering and approximately HK\$49.8 million from internal resources and/or external financing)

Set out below is a breakdown of the estimated total investment amount for our new aesthetic medical hospital in Shanghai City:

	Estimated total investment amount (RMB'000)
Renovation costs	14,000
Rental fee per year	12,000
Promotion expenses	7,000
Aesthetic medical equipment costs	6,000
Physicians and staff costs per year	6,000
Working capital	<u>10,000</u>
Total	<u><u>55,000</u></u>

The opening of a new aesthetic medical hospital generally involves a number of steps, including strategic planning, market research, site selection, feasibility study, regulatory approval process, construction and decoration of premises, recruitment of necessary personnel, acquisition of equipment and supplies, and commencement of operations. Based on our management estimate and current market condition, the whole process generally takes one to two years to complete for an aesthetic medical hospital. The regulatory requirements for establishing an aesthetic medical hospital in Shanghai City are similar to those in Zhejiang Province and Anhui Province in all



material aspects, in particular, our new aesthetic medical hospital in Shanghai City shall be required to obtain the Medical Institution Practicing License from relevant local administrative authority and other licenses relating to its business operation; while it shall also maintain the regulatory required number of physicians and medical staff. Based on the current market condition and regulatory environment, our Directors expected it will take approximately two to four months for the relevant administrative authority to grant the Medical Institution Practicing License after we have met all requirements for establishing an aesthetic medical hospital and submitted the application documents in according with relevant laws and regulations. According to the expected time of opening of the new hospital, we expect to obtain such Medical Institution Practicing License and other licenses necessary for operation in the second quarter of 2023.

Due to the nature of our business, a new aesthetic medical institution generally has lower income and higher operating costs during the initial stages of its operation. Breakeven of a new aesthetic medical institution is reached when it begins to record net profit for the year. The payback period for a new aesthetic medical institution represents the time that it takes for the accumulated operating cash flow attributable to our Company from the relevant aesthetic medical institution to cover the initial investment. Based on our previous operating experience and current market condition (without taking into account the impact or potential impact of the occurrence of any natural disasters, acts of God or pandemics, including COVID-19), it generally takes approximately 21 months for a new aesthetic medical institution to breakeven on average and approximately 47 months to recover the initial investment on average. Based on our management best estimate, current market condition, our strategies to capture market demand and our previous operating experience (without taking into account the impact or potential impact of the occurrence of any natural disasters, acts of God or pandemics, including COVID-19), we aim to achieve breakeven for our proposed new hospital in Shanghai City within 36 months and investment payback within 80 months. The principal reasons that our proposed new hospital in Shanghai City is expected to experience a longer breakeven and investment payback period are: (i) based on our Directors' understanding, aesthetic medical institutions in Shanghai City would incur relatively higher operating costs, such as staff cost and rental fees, than that in Zhejiang Province and as a result of which higher cost of sales and initial investment amount are required; (ii) the breakeven and investment payback periods for our existing aesthetic medical institutions were based on the operation cost incurred several years ago and with inflation, our Directors expected that higher costs of sales would be experienced when our Group is to establish aesthetic medical institutions now; (iii) according to our Group's strategies to capture the market demand in Shanghai City, we will offer competitive pricing for certain focused aesthetic medical services and offer free trials of aesthetic dermatology services and minimally-invasive aesthetic services at the initial stage of the operation and as a result of which higher costs, lower profit and higher operating cash flow are expected during the first year of the operation of the new hospital; and (iv) a conservative estimate was adopted to calculate such breakeven and investment payback periods for the new hospital in



Shanghai City. For further details of the breakeven and investment payback period of our aesthetic medical institutions, please refer to the paragraph headed “Breakeven and Investment Period” in this section.

*Strategic acquisitions*

We plan to pursue acquisition opportunities of aesthetic medical institutions that have demonstrated track records of strong performance and good reputations, which we believe will enable us to rapidly replicate our success in new markets at Zhejiang Province. As we had a track record of more than 10 years in Zhejiang Province and we ranked fifth among all private aesthetic medical institutions providers in terms of aesthetic medical service revenue in 2019 in Zhejiang Province according to the Frost & Sullivan Report, we intend to deepen our market penetration and enhance our market position in Zhejiang Province. As a province contributing 4% of the population in China, Zhejiang Province’s aesthetic medical services market contributed 7% of the national market in 2019 in terms of revenue. We therefore believe Zhejiang Province has great growth potential for aesthetic medical business. When expanding by acquisition, we will primarily target aesthetic medical institutions that have been in full operation for at least three years with GFA in the range of 2,000 to 3,000 sq.m., annual revenue of approximately RMB30 million and more than 5,000 active clients per year. In addition, those aesthetic medical institutions with any material historical medical disputes or medical incidents will not be our targets. Our management is active in relevant aesthetic medical industry associations and keeps in close touch with market participants through our business of the provision of aesthetic medical management consulting services and thus is well informed of potential suitable targets. We evaluate potential aesthetic medical institution targets based on a number of selection criteria, including the location of the target and its proximity to prime commercial districts, the existing operational scale and clinical department, experience and track record of physicians and medical staff of the target, competitive landscape in the city where the target located, the target’s historical performance and professional reputation, and its compatibility with our corporate culture and existing aesthetic medical institutions. As at the Latest Practicable Date, there were three potential targets in our watch list, all of which were located in Zhejiang Province.

We plan to invest approximately RMB40.0 million (equivalent to approximately HK\$47.6 million) in strategic acquisition of one aesthetic medical institution and re-brand the acquired aesthetic medical institution to bring it in line with our existing operational standards. We plan to finance the above intended acquisition primarily with the net proceeds from the Global Offering in the sum of HK\$8.4 million, and the rest with our internal resources and/or external financing. As at the Latest Practicable Date, we had not entered into any letters of intent or agreements with respect to acquisition and had not identified any definite acquisition target.

We may face a number of challenges in implementing our expansion plans, such as recruiting experienced physicians and medical staff, obtaining the requisite licenses and permits, and maintaining our competitive advantages. To this end, we intend to continue to attract and retain seasoned physicians and medical staff to join us by

offering competitive benefits and promising career opportunities. In addition, we will, in accordance with all applicable laws, regulations and rules, apply for the necessary approvals, permits and licenses for our expansion plans, primarily relating to the opening of our new aesthetic medical institution. Our expansion plans are inevitably subject to our operations and the market conditions from time to time and we may make adjustments accordingly for our best interests. For details, please refer to the sections headed “Risk Factors — Risks Relating to our Business — Our expansion plans, particularly our plans to expand our business into various new geographic areas in the PRC, are subject to uncertainties and risks, and we may not be able to successfully manage our expanded operations”, “Risk Factors — Risks Relating to our Business — Opening of new aesthetic medical institutions could result in fluctuations in our short-term financial performance” and “Risk Factors — Risks Relating to our Business — Newly opened and acquired aesthetic medical institutions may not achieve normal operation as anticipated, which could adversely affect our business, results of operations, financial condition and prospects” in this prospectus.

#### **Vertical integration through strategic acquisition and investment**

We plan to pursue acquisition and investment opportunities for vertical expansion of the supply chain of the aesthetic medical services industry, i.e. investing in or entering into business alliance with upstream suppliers of aesthetic medical consumables or equipment in order to have better costs and quality control of our supplies and broaden our revenue base. We plan to finance the above vertical expansion plans with our internal resources and/or external financing.

On 16 December 2019, our Shenzhen Ruiquan entered into an equity interest investment agreement (the “**Investment Agreement**”) with an individual seller (who is the controlling shareholder of Jiumei Xinhe and an Independent Third Party) and Jiumei Xinhe, pursuant to which Shenzhen Ruiquan shall acquire from such seller 10% equity interests in Jiumei Xinhe at a consideration of RMB6 million. The consideration was determined with reference to the business valuation of Jiumei Xinhe considering its estimated future performance. The acquisition was completed on 27 December 2019. Pursuant to the Investment Agreement, Shenzhen Ruiquan and its associates was granted the license to use the trademark and brand image associated with Chuzhen Facial Implant.

Jiumei Xinhe is the exclusive distributor in the PRC of Chuzhen Facial Implant, a brand of e-PTFE facial implant imported from South Korea. During the Track Record Period, we procured e-PTFE implant which include domestic brands and brands imported from USA from third party suppliers for use in the provision of aesthetic surgery services in the amount of approximately RMB533,000, RMB739,000, RMB586,000 and RMB227,000, respectively. As at the Latest Practicable Date, there were only three foreign manufacturers of e-PTFE implant (including the manufacturer of Chuzhen Facial Implant) and three domestic manufacturers of e-PTFE implant, which obtained Registration Certificate for Medical Device issued by NMPA. Chuzhen Facial Implant, being a brand of e-PTFE implant imported from South Korea, provides a more economic choice among other foreign imported US

brands to our clients. In order to ensure a stable and reliable supply of e-PTFE implant, as well as have a better quality and costs control of e-PTFE implant for our aesthetic medical services, we entered into agency agreements with Jiumei Xinhe for the distribution of Chuzhen Facial Implant.

On 16 December 2019, our Raily Equipment entered into three agency agreements (the “**Agency Agreements**”) with Jiumei Xinhe for the non-exclusive sale and distribution of Chuzhen Facial Implant in Anhui Province, Zhejiang Province and Shanghai City, respectively.

The major terms of the Agency Agreements are as follows:

Date	:	16 December 2019
Term	:	1 January 2020 to 31 December 2022
Deposit	:	Raily Equipment shall pay Jiumei Xinhe a deposit of RMB1.5 million, RMB2.0 million and RMB1.5 million under the Agency Agreement for Anhui Province, Zhejiang Province and Shanghai City, respectively, within 30 days from the date of the Agency Agreements. Such deposits shall be returned to Shenzhen Ruiquan upon the expiration of the term of the Agency Agreements.
Sales target or minimum purchase requirement	:	Raily Equipment has no sales target nor minimum purchase requirement.
Pricing and supplies	:	Jiumei Xinhe undertakes to supply Chuzhen Facial Implant to Raily Equipment in priority at the lowest price within the authorized territory. The Chuzhen Facial Implant supplied can be used by Shenzhen Ruiquan and its affiliates, or re-sell to third parties. There is no restriction on our re-sell prices.
Sales and distribution	:	Raily Equipment shall actively promote the sales of Chuzhen Facial Implant upon obtaining the relevant medical device operation permit.

Further, we believe that such strategic acquisition and investment in Jiumei Xinhe and the Agency Agreements allow us to tap into the aesthetic medical implant market and broaden our revenue base. According to the Frost & Sullivan Report, as compared with other implant materials, such as silicone, e-PTFE has a better histocompatibility due to its multi-pore structure, which enables body tissues to grow and combine with e-PTFE. The lightweight nature of e-PTFE also prevents it from sliding under the skin and compressing bone tissues. According to the Frost & Sullivan Report, with its

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substantial benefits over other implant materials, e-PTFE is expected to become a more popular implant material in the future. On 23 June 2020, Raily Equipment obtained the Medical Device Operation Permit (醫療器械經營許可證) which is necessary for the sales and distribution of Chuzhen Facial Implant in the PRC.

### **Acquire new aesthetic medical service equipment and treatment consumables to extend the spectrum of our treatment services offered in our current aesthetic medical institutions**

We operate in an industry that is highly driven by rapid technological advancements. In order to remain competitive, we believe it is essential to keep up with the prevailing treatment technology and equipment, and the trend in treatment consumables. We plan to continue to invest approximately RMB20.0 million (equivalent to approximately HK\$23.8 million) in advanced aesthetic medical service equipment and introduce new technologies. In particular, we plan to continue to strengthen our aesthetic surgery services by introducing new technologies to improve certain aesthetic medical procedures with relatively higher average spending per visit and by introducing new types of procedures to extend the spectrum of our treatment services offered. For example, we purchased equipment for the provision of picosecond laser procedure in 2018 in an aggregate amount of approximately RMB8.8 million which generated additional revenue for our aesthetic dermatology services, attracted new clients and boosted our sales of aesthetic medical services generally. Set out below is a breakdown of the estimated total investment amount for new acquiring aesthetic service equipment:

Type of aesthetic medical service equipment to be acquired	Estimated number of aesthetic medical service equipment to be acquired for our medical institutions	Estimated total investment amount (RMB'000)
<b>Laser<sup>(1)</sup></b>	<b>14</b>	<b>15,700</b>
	Hangzhou Raily: 3	3,125
	Ruian Raily: 4	4,725
	Raily Tiange: 3	3,125
	Wuhu Raily: 4	4,725
<b>Surgery related<sup>(2)</sup></b>	<b>6</b>	<b>4,300</b>
	Hangzhou Raily: 4	2,900
	Raily Tiange: 2	1,400
<b>Total</b>	<b>20</b>	<b>20,000</b>

*Note:*

1. Laser equipment includes new laser equipment for lipolysis and new equipment for face lifting treatment using combination of four types of lasers technology.

2. Surgery related equipment includes new equipment for hydrodynamic liposuction treatment and endoscopic equipment which enables physicians to perform surgical procedures with greater precision.

Our senior management has been keeping up with the prevailing market technologies, aesthetic medical equipment and treatment consumables to meet the increasing demand of our clients. We expect to use approximately HK\$6.1 million of the net proceeds of the Global Offering to fund the purchase of aesthetic medical service equipment (such as equipment for hydrodynamic liposuction treatment, equipment for laser liposuction treatment and equipment for face lifting treatment using combination of four types of lasers technology, being recent technologies available in the market) and medical consumables to increase the efficiency of our treatments, improve our clients' experience and extend the spectrum of our treatment services offered in our current aesthetic medical institution.

### **Actively promote our brand**

As our business continues to grow, we believe that successful branding through effective marketing strategies is essential for us to maintain our established reputation and attract new clients, in particular in new geographical markets we plan to expand to. To continue to maintain and promote our brand and as well as to increase the public awareness of our brand in both our current and potential markets, we plan to increase our marketing efforts to actively promote our brand by placing more elevator advertising in grade A office buildings and collaboration with some online influencer or key opinion leaders to promote our brand through various online platforms. We expect to use approximately RMB20 million (equivalent to approximately HK\$23.8 million) to promote our brand and our aesthetic medical services according to our marketing strategies. Set out below is a breakdown of the estimated total investment amount for the active promotion of our brand:

	<b>Estimated total investment amount (RMB'000)</b>
Out-of-home advertising	12,000
Online marketing	7,500
Collaboration with online influencer or key opinion leaders	<u>500</u>
Total	<u><u>20,000</u></u>

We plan to finance the implementation of the above strategy primarily with the net proceeds from the Global Offering in the sum of HK\$4.5 million and the rest with our internal resources and/or external financing.

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### Estimated total investment amount in implementing our strategies and source of funding

Below is a table showing the estimated total investment amount in implementing our strategies and their respective source of funding:

		Source of funding	
	Estimated investment amount (HK\$'000)	Net proceeds from Global Offering (HK\$'000)	Internal resources and/or external financing (HK\$'000)
<b>Expanding our aesthetic medical institutions network</b>	<b>178,600</b>	<b>39,800</b>	<b>138,800</b>
— Renovation and expansion of existing aesthetic medical institutions	65,500	15,700	49,800
— Organic growth	65,500	15,700	49,800
— Strategic acquisitions	47,600	8,400	39,200
<b>Acquire new aesthetic medical service equipment and treatment consumables to extend the spectrum of our treatment services offered in our current aesthetic medical institutions</b>	<b>23,800</b>	<b>6,100</b>	<b>17,700</b>
<b>Actively promote our brand</b>	<b>23,800</b>	<b>4,500</b>	<b>19,300</b>
<b>Total</b>	<b>226,200</b>	<b>50,400</b>	<b>175,800</b>



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We estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses, and assuming an Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$56.0 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

	From the Latest Practicable Date to 30 June 2021 (HK\$'000)	For the six months ending 31 December 2021 (HK\$'000)	For the six months ending 30 June 2022 (HK\$'000)	For the six months ending 31 December 2022 (HK\$'000)	For the six months ending 30 June 2023 (HK\$'000)	After 30 June 2023 (HK\$'000)	Total (HK\$'000)	Approximate percentage of total net proceeds
Expanding our aesthetic medical institutions network	—	2,800	12,800	10,000	9,400	4,800	39,800	71.0%
— Renovation and expansion of existing aesthetic medical institutions	—	2,800	4,200	4,800	3,700	200	15,700	28.0%
— Organic growth	—	—	7,900	2,800	2,200	2,800	15,700	28.0%
— Strategic acquisitions	—	—	700	2,400	3,500	1,800	8,400	15.0%
Acquire new aesthetic medical service equipment and treatment consumables to extend the spectrum of our treatment services offered in our current aesthetic medical institutions	600	1,500	4,000	—	—	—	6,100	11.0%
Actively promote our brand	—	600	600	2,200	900	200	4,500	8.0%
General working capital	500	500	1,100	1,100	1,100	1,300	5,600	10.0%
<b>Total</b>	<b>1,100</b>	<b>5,400</b>	<b>18,500</b>	<b>13,300</b>	<b>11,400</b>	<b>6,300</b>	<b>56,000</b>	<b>100.0%</b>

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### OUR BUSINESS MODEL

We generate revenue primarily from the provision of aesthetic medical services which principally include (i) aesthetic surgery services; (ii) minimally-invasive aesthetic services; and (iii) aesthetic dermatology services, comprising primarily a wide range of energy-based procedures. We also began to provide aesthetic medical management consulting service since December 2017.

The following table sets forth our revenues by types of services offered for the period indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
<b>Aesthetic medical services</b>	<b>112,932</b>	<b>100.0</b>	<b>146,256</b>	<b>92.0</b>	<b>183,609</b>	<b>96.1</b>	<b>88,699</b>	<b>96.3</b>	<b>57,476</b>	<b>97.9</b>
— Aesthetic surgery services	56,685	50.2	57,530	36.2	54,996	28.8	28,547	31.0	14,384	24.5
— Minimally-invasive aesthetic services	28,854	25.5	40,310	25.4	55,942	29.3	26,176	28.4	20,196	34.4
— Aesthetic dermatology services	24,011	21.3	41,768	26.3	58,092	30.4	25,798	28.0	18,417	31.4
— Others <sup>(Note)</sup>	3,382	3.0	6,648	4.1	14,579	7.6	8,178	8.9	4,479	7.6
<b>Aesthetic medical management consulting services</b>	<b>—</b>	<b>—</b>	<b>12,679</b>	<b>8.0</b>	<b>7,547</b>	<b>3.9</b>	<b>3,382</b>	<b>3.7</b>	<b>1,254</b>	<b>2.1</b>
<b>Total</b>	<b>112,932</b>	<b>100.0</b>	<b>158,935</b>	<b>100.0</b>	<b>191,156</b>	<b>100.0</b>	<b>92,081</b>	<b>100.0</b>	<b>58,730</b>	<b>100.0</b>

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

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### OUR SERVICES

#### Aesthetic Medical Services

We offer a broad range of aesthetic medical services to our clients to meet their different aesthetic and anti-aging objectives, with an aim to improve their physical appearance and wellbeing. The following table sets forth the number of aesthetic medical procedures we performed and active clients in connection with our aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services, and the average spending per procedure and the average spending per active client during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
<b>Aesthetic surgery services</b>					
Number of procedures performed	4,837	7,318	8,280	4,219	2,275
Average spending per procedure <sup>(1)</sup> (RMB)	11,719	7,861	6,642	6,766	6,323
Number of active clients	3,297	4,729	5,184	2,607	1,539
Average spending per active client <sup>(2)</sup> (RMB)	17,193	12,165	10,609	10,950	9,346
<b>Minimally-invasive aesthetic services</b>					
Number of procedures performed	22,595	44,948	55,773	22,594	21,492
Average spending per procedure <sup>(1)</sup> (RMB)	1,277	897	1,003	1,159	940
Number of active clients	9,554	16,560	21,978	11,135	9,338
Average spending per active client <sup>(2)</sup> (RMB)	3,020	2,434	2,545	2,351	2,163
<b>Aesthetic dermatology services</b>					
Number of procedures performed <sup>(3)</sup>	91,844	177,653	238,342	97,604	78,992
Average spending per procedure <sup>(1)</sup> (RMB)	261	235	244	264	233
Number of active clients	16,380	26,496	42,673	22,488	20,203
Average spending per active client <sup>(2)</sup> (RMB)	1,466	1,576	1,361	1,147	912
<b>Total number of procedures performed</b>	<b>119,276</b>	<b>229,919</b>	<b>302,395</b>	<b>124,417</b>	<b>102,759</b>
<b>Average spending per procedure<sup>(4)</sup> (RMB)</b>	<b>947</b>	<b>636</b>	<b>607</b>	<b>713</b>	<b>559</b>
<b>Number of active clients</b>	<b>29,231</b>	<b>47,785</b>	<b>69,835</b>	<b>36,230</b>	<b>31,080</b>
<b>Average spending per active client<sup>(4)</sup> (RMB)</b>	<b>3,863</b>	<b>3,326</b>	<b>2,737</b>	<b>2,448</b>	<b>1,849</b>

*Notes:*

- (1) The average spending per procedure is calculated by dividing the revenue of each type of aesthetic medical services by their relevant number of procedures performed during the relevant year/period.
- (2) We calculated 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/period.
- (3) The number of procedures performed include trial procedures, retouch procedures and procedures performed as promotional gifts.
- (4) The average spending per procedure and average spending per active client is calculated by dividing the revenue for aesthetic medical services by the total number of procedures performed or the total number of active client respectively during the relevant year/period.

The number of procedures performed was on an increasing trend throughout the Track Record Period due to the increase in the number of active clients, which was mainly benefited from (i) the growing social acceptance of aesthetic medical services; and (ii) our effective online marketing campaign promoting our aesthetic medical services upon the successful adoption of new business retail philosophy which aims at capturing the massively blooming pool of target consumers, being young females whose purchasing pattern are heavily influenced by key opinion leaders and influencers and are in the habit of online purchasing. The average spending per procedure and the average spending per active client were generally on a decreasing trend as a result of our pricing strategy adopted to increase competitiveness and the different proportion of types of procedures performed during the relevant period. For analysis of the number of procedures performed and average spending per procedure for each type of aesthetic medical services, please refer to the section headed “Financial Information — Principal Components of our Results of Operations — Revenue by Service Offerings” in this prospectus.

### *Aesthetic surgery services*

Our aesthetic surgery services involve the provision of aesthetic surgical procedures. Aesthetic surgical procedures are invasive and are performed to alter the appearance of various parts of the face or body, such as eyelids, nose, breast and facial shape.

The following table sets forth our main aesthetic surgical procedures during the Track Record Period:

<b>Procedure</b>	<b>Description and intended aesthetic effects</b>	<b>Price range per procedure as at the Latest Practicable Date <sup>(Note)</sup> (RMB)</b>
<b>Eye surgery</b>	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	980–22,300
<b>Rhinoplasty</b>	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	4,800–58,000
<b>Breast surgery</b>	Enlarging or reducing breasts, lifting sagging breasts or changing the shape of the breasts	9,800–90,000
<b>Lipoplasty/Fat transfer</b>	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	2,500–36,000
<b>Linear shaping</b>	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	6,000–50,000

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*Note:* The price range of our aesthetic surgical procedure varied significantly among each type of procedures as such price depends on a combination of factors which include (i) the complexity of the procedure; (ii) treatment area; (iii) types of implants used (for example, for prosthesis for rhinoplasty, clients can choose to use more advanced and expensive prosthesis such as e-PTFE or more economic material such as plastic); (iv) brand and origin of implants; and (v) seniority of physician performing the procedure.

Due to the surgical nature of such procedures, the aesthetic effect of most of our aesthetic surgical procedures performed may last indefinitely, except for certain liner shaping procedures, the results of which may last for around one year while the bio-protein lines implanted have not been entirely absorbed by body tissue.

Clients of our aesthetic surgical procedures are usually needed to be anesthetized before the procedures. All of such anesthesia process are performed by our qualified anesthesiologists. All our aesthetic surgical procedures are required to be performed by qualified physicians with necessary clinical working experience in accordance with the relevant PRC laws and regulations.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, revenue generated from aesthetic surgical procedures amounted to approximately RMB56.7 million, RMB57.5 million, RMB55.0 million and RMB14.4 million, respectively, representing 50.2%, 36.2%, 28.8% and 24.5% of our total revenue for the same periods, respectively.

### *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. 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 or facial contouring.

The following table sets forth our main minimally-invasive aesthetic procedures during the Track Record Period:

Procedure	Description and intended aesthetic effects	Price range per procedure/injection as at the Latest Practicable Date (RMB)
<b>Injection of botulinum toxin type A</b>	Injection of botulinum toxin type A drugs, e.g., BTXA, BOTOX <sup>®</sup> , to facial, subcutaneous or intramuscular layer in order to reduce wrinkles	450–9,800 <sup>(1)</sup> per procedure
<b>Injection of dermal fillers</b>	Injection of dermal fillers to facial, subcutaneous or periosteal layer in order to reduce wrinkles, lift sagging skin and restore volume under the skin	499–12,800 <sup>(2)</sup> per injection

*Notes:*

- (1) The price range of injection of botulinum toxin type A varied significantly for each procedure as such price primarily depends on the dosage of drugs used which in turn depends on the desired treatment area.
- (2) The price range of injection of dermal fillers varied significantly depending on the types and brands of dermal fillers used.

The aesthetic effect of aesthetic injection procedures only lasts for a limited period of time, usually less than one year, and varies depending on the injection materials and clients' physical conditions. We fully inform our clients of the expected duration of effectiveness of our procedures, and many return for repeated procedures subsequently when the effects of their own previous procedures require upkeep. Our repeat clients for minimally-invasive aesthetic services were 5,551, 8,306, 12,704 and 6,140 for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively, representing approximately 19.0%, 17.4%, 18.2% and 19.8% of total number of our active clients who have received at least one procedure in the relevant year.

All our minimally-invasive aesthetic procedures are required to be performed by qualified physicians with necessary clinical working experience in accordance with the relevant PRC laws and regulations.

Such aesthetic injection procedures help an individual to improve his/her appearance with minimal damage to body issue and are gaining popularity both globally and in the PRC due to their relatively low level of risk, higher affordability and shorter recovery period compared to aesthetic surgical procedures, and relatively quicker and more visible effects compared to traditional non-invasive beauty services. For the three years ended 31 December 2019 and the six months ended 30 June 2020, revenue generated from minimally-invasive aesthetic services amounted to RMB28.9 million, RMB40.3 million, RMB55.9 million and RMB20.2 million, respectively, representing 25.5%, 25.4%, 29.3% and 34.4% of our revenue for the same periods, respectively.

***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, skin lifting and tightening, and hair removal.

We strive to provide safe and high quality aesthetic dermatology services with our energy-based devices. All of our major energy-based devices are 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 a maintenance by our suppliers from time to time.



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The following table sets forth our main aesthetic dermatology procedures during the Track Record Period:

Procedure	Description and intended aesthetic effects	Price range per procedure as at the Latest Practicable Date <i>(Note)</i> <i>(RMB)</i>
Mesotherapy	Injecting active substances, such as hyaluronic acid, into the junction of dermis and epidermis through tiny needle of dedicated machine by using the vacuum negative pressure technology with an aim to moisturize and hydrate skin, shrink pores, improve skin tone and lighten fine wrinkles.	980–5,040
Picosecond laser	Using laser of picosecond pulse duration with high pulse energy which can accurately blast pigment tissue or tattoo to reduce pigmentation and brighten skin tone.	680–3,800
Microneedle therapy system	Using numerous tiny needles on a specially designed roller to make numerous micro channels on the skin in a short period time in order to initiate the self-repairing process of human body with an aim to ease and reduce acne scars, freckles and wrinkles.	980–3,800
Q-Switch laser	Using laser of nanosecond pulse duration which can accurately blast pigment tissue or tattoo with selective photothermolysis to reduce pigmentation and brighten skin tone.	1,500–3,980
Laser hair removal	Using the selective photothermal effect of laser to damage hair follicle and the surrounding hair stem cells to achieve hair removal in various parts of the body without irritation to skin.	299–3,800
Photo rejuvenation	Using broad-spectrum light which can cover a variety of color bases to ease spots on face and stimulate the rejuvenation of collagen with an aim to improve skin texture, shrink pores, increase skin elasticity and whitening skin.	680–4,000
Thermage	Using a probe to transmit high-energy radiofrequency to deep layer of dermis to denature and constrict the collagen by heat energy, so as to activate the self-repairing process of human body and stimulate the regeneration of collagen with an aim to improve skin texture, shrink pores, increase skin elasticity and whitening skin.	1,500–6,800

*Note:* In calculating the price range of our aesthetic dermatology procedures, limited-time discount offers, free trials and retouch procedures are excluded. The range in price among each of our aesthetic dermatology procedure varied significantly as such price depends primarily on the treatment area and dosage of drugs used (if applicable).

Depending on the type of the procedure and client's reaction to the procedure, most of the aesthetic dermatology procedures require repeated sessions in order to achieve and/or maintain the optimal aesthetic results.

All our aesthetic dermatology procedures are required to be performed by qualified physicians with necessary clinical working experience in accordance with relevant PRC laws and regulations.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, revenue generated from aesthetic dermatology services amounted to RMB24.0 million, RMB41.8 million, RMB58.1 million and RMB18.4 million, respectively, representing 21.3%, 26.3%, 30.4% and 31.4% of our revenue for the same periods, respectively. Our repeat clients for aesthetic dermatology services were 7,595, 11,681, 20,012 and 10,109 for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively, representing approximately 26.0%, 24.4%, 28.7% and 32.5% of total number of our active clients who have received at least one procedure in the relevant year.

### ***Others***

We also provide other aesthetic medical services which primarily consist of aesthetic dental services. We provide our 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 a full range of aesthetical medical services and facilitates our cross-selling of aesthetical medical services to our clients 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. As at 30 June 2020, we have 14 physicians who are qualified to use or prescribe narcotic pharmaceuticals and psychotropic substance. According to the relevant PRC laws and regulations, such qualified physicians are required to attend our internal anesthesiology training and pass our relevant internal examination. For more details of the relevant PRC laws and regulations, please refer to section headed "Regulatory Overview — Rules on the Supervision over Pharmaceuticals in Medical Institutions" in this prospectus.

### **Aesthetic Medical Management Consulting Services**

We began to provide management consulting services to third party aesthetic medical institutions and aesthetic medical physicians since December 2017 when we acquired Guangzhou Yingjieshi. Since then, we have been providing aesthetic medical management consulting services through our two subsidiaries, namely, Guangzhou Yingjieshi and Ningbo Zhuerli. There are no material differences in the services provided or business strategies adopted by Guangzhou Yingjieshi and Ningbo Zhuerli. For the three years ended 31 December 2019 and the six months ended 30 June 2020, revenue generated from aesthetic

medical management consulting services amounted to nil, RMB12.7 million, RMB7.5 million and RMB1.3 million, respectively, representing nil, 8.0%, 3.9% and 2.1% of our revenue for the same periods, respectively. The percentage contribution of our aesthetic medical management consulting service decreased from approximately 8.0% for the year ended 31 December 2018 to approximately 2.1% for the six months ended 30 June 2020, primarily due to a change of our strategy to focus on nurturing profitable clients in order to increase our profit margin in the second half of 2019. Our gross profit margin for our aesthetic medical management consulting services increased from approximately 42.1% for the year ended 31 December 2018 to 51.1% for the six months ended 30 June 2020. For details of the clients of our aesthetic medical management consulting services, please refer to the paragraph headed “Clients of our Aesthetic Medical Management Consulting Services” in this section.

Leveraging our years of experience in managing aesthetic medical institutions and our expertise in sales and marketing of aesthetic medical services, we provide management consulting services to third parties aesthetic medical institutions in relation primarily to their operations and administration, and sales and marketing; and third parties physicians in relation primarily to their professional biography building, sales and marketing as well as operation and administration of their aesthetic medical business. Such services do not involve any authorization of using our trade name or our intellectual property rights.

Based on the specific profile of our clients and their specific operational or marketing goals, our management consulting services may include the following:

1. in relation to the operations and administration of the clients’ aesthetic medical institution:
  - formulating overall operation plan for clients;
  - designing and establishing standardized operating procedures and service process in aesthetic medical institutions or at the practicing site of the physician;
  - designing and establishing the standardized management system of procurement;
  - designing and establishing client feedback management system;
  - designing and establishing organization structure and recruitment system;
  - designing key performance indicators and salary structure for staff;
2. in relation to the sales and marketing of the clients’ aesthetic medical institution:
  - formulating overall sales and marketing plan;
  - designing promotion and marketing activities;

- selection of appropriate e-commerce or other online platform to promote and market clients' aesthetic medical services;
  - maintaining and operating online shops of clients;
  - providing training to staff regarding sales and marketing strategies;
3. in relation to the professional biography building for individual physician client or the key physicians of the clients' aesthetic medical institution:
- designing the contents of clients' online platforms by compiling the biography of experienced physicians or the physician's own biography, as the case may be, to highlight client's strengths and expertise; and
  - selecting the most suitable user's experience as showcases published on online shops.

We have a designated team of consultants for each case. Generally, a designated team for each case comprised two to six members led by Mr. Yu, our chief executive officer and an executive Director. For biographical details of Mr. Yu, please refer to the section headed "Directors and Senior Management — Executive Directors" in this prospectus. Our consultant team advises on regular basis through online or on-site guidance. Our consultant team does not participate in any daily operation of or medical treatment provided by our clients.

***Clients of our aesthetic medical management consulting services***

Prior to the completion of our acquisition of Guangzhou Yingjieshi in December 2017, Hangzhou Raily had been one of the management consulting clients of Guangzhou Yingjieshi since January 2017. Hangzhou Raily, under the consulting advice of Mr. Yu and his team in Guangzhou Yingjieshi, had significantly improved its sales on certain online e-commerce platforms through online marketing campaigns. With the joining of Mr. Yu as an executive Director and the Chief Executive Officer in October 2017 and the acquisition of Guangzhou Yingjieshi in December 2017, we successfully adopted new business retail philosophy which aims at capturing the massively blooming pool of target consumers, being young females whose purchasing pattern are heavily influenced by key opinion leaders and influencers and are in the habit of online purchasing. Our effective online marketing efforts have allowed us to obtain strong brand recognition online which include receiving various awards and recognitions from renowned e-commerce platforms, such as Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City issued by Meituan, AliHealth Most Popular Medical Institution Award (阿里健康最受歡迎醫療機構獎) issued by AliHealth and Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) by SoYoung.com, and receiving high review rating for our online shop on certain renowned e-commerce online platforms.

Our success in our business retail strategy was also reflected in our high efficiency of our sales and marketing. According to the Frost & Sullivan Report, our client acquisition costs per client, which refers to the promotion and marketing expenses divided by the number of new clients, which amounted to approximately RMB700 in 2019, was much lower than the average client acquisition costs per client of RMB3,000 to RMB5,000 in the aesthetic medical industry in 2019. Further, based on the Frost & Sullivan Report, the percentage of our promotion and marketing expenses to our revenue of aesthetic medical services was approximately 12.7% in 2019, which was much lower than the average percentage of promotion and marketing expenses to aesthetic medical services revenue in the aesthetic medical industry, being approximately 21.9%, in 2019.

According to the Frost & Sullivan Report, given (i) the blooming e-commerce market of aesthetic medical services in the PRC; and (ii) the increasing demand from aesthetic medical service providers for professional advice to increase the efficiency of online marketing apart from traditional marketing channels, there has been an increasing demand from aesthetic medical service providers for professional management consulting services in order to efficiently capture the online traffic. However, according to the Frost & Sullivan Report, there were less than ten management consulting service firms (including that of our Group) with operating history of five years or more specialized in aesthetic medical services in the PRC in mid-2020. Please refer to the section headed “Industry Overview — Industry Outlook and Competitive Landscape of Aesthetic Medical Management Consulting Services in the PRC” for details.

Leveraging (i) our experienced service team with average years of industry experience of approximately 6.4 years led by Mr. Yu Kai, who is currently an executive Director and the chief executive officer of the Company, and has been accumulating his management experience in aesthetic medical services industry since 2009; (ii) our familiarity with the aesthetic medical service market and capability of provision of high quality management consulting services in relation to new market channels as exemplified by successful showcases of existing clients’ drastic improvement of performance and marketing efficiency; and (iii) our brand reputation and clientele network established through our strong business development efforts by participation in various aesthetic medical industry conferences, seminars and exhibitions since the establishment of Guangzhou Yingjieshi in 2015, our Directors believe that we have been effective in attracting clients for our aesthetic medical management consulting services. Continuing the marketing strategy of Guangzhou Yingjieshi, we have been actively participating in various aesthetic medical industry conferences, seminars and exhibitions including those organized by different industry associations, and making presentations on different new media marketing topics therein, in order to attract new clients and solicit new business for our aesthetic medical management consulting services.

During the Track Record Period, we provided aesthetic medical management consulting services to 98 aesthetic medical institutions and 15 physicians. Those clients are located in more than 30 different cities in the PRC, most of which are located outside Zhejiang Province. According to the Frost & Sullivan Report, geographical affinity is one of the important competitive factors for aesthetic medical services. We therefore are of the

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view that given the difference in location of our clients of aesthetic medical management consulting services and our aesthetic medical institutions, our clients' aesthetic medical services would not directly compete with us.

We price our aesthetic medical management consulting services based on a number of factors. In addition to the scope of services, we may also consider the difficulties of achieving the target revenue requested by client, market conditions, historical business relationship with the client, our availability of human resources and the potential profitability of clients based on our judgement of client's business prospects. As a result, our service fees charged for our aesthetic medical management consulting services vary significantly from client to client. We generally charge our client a fixed service fees and/or, in some cases performance bonus for our management consulting services. Depending on, among others, the scope of services, the size of the designated consultant team required, the scale and geographical location of our clients, market conditions and years of business of relationship, our service fees charged varies significantly from client to client. During the Track Record Period, the total contract sum of fixed service fee for client being physician ranged from approximately RMB50,000 to RMB240,000, while ranged from approximately RMB3,600 to RMB2,700,000 for client being aesthetic medical institutions. Generally, our clients of aesthetic medical services settled our service fees by bank transfer. Based on the Frost & Sullivan's market research, the service fees charged by aesthetic management consulting service providers vary significantly depending on the scope of services and duration of services subject to the needs of the clients, and generally comprised fixed service fees and/or performance bonus. Based on the market research and independent interviews conducted by Frost & Sullivan on various management consulting service firms specializing in aesthetic medical services in the PRC, Frost & Sullivan is of the view that the levels of service fees charged by our Group were in line with the industry norm.

The following table sets forth the number of our clients of aesthetic medical management consulting services as at the dates indicated:

	As at 1 January 2018	As at 31 December 2018	As at 31 December 2019	As at 30 June 2020	As at the Latest Practicable Date
Number of medical institutions	19	40	13	7	9
Number of physicians	nil	8	1	nil	nil
Total	<u>19</u>	<u>48<sup>(1)</sup></u>	<u>14<sup>(2)</sup></u>	<u>7<sup>(3)</sup></u>	<u>9<sup>(4)</sup></u>

*Notes:*

- (1) Save for three aesthetic medical institutions being repeat clients, who have previously entered into at least one aesthetic medical consulting management services agreement with our Group, all are new clients obtained by our Group in the year ended 31 December 2018.



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- (2) Save for three aesthetic medical institutions being repeat clients, who have previously entered into at least one aesthetic medical consulting management services agreement with the Group, all are new clients obtained by our Group in the year ended 31 December 2019.
- (3) Four of which are repeat clients, who have previously entered into at least one aesthetic medical consulting management services agreement with our Group; and three of which are new clients obtained by our Group since 1 January 2020.
- (4) Four of which are repeat clients, who have previously entered into at least one aesthetic medical consulting management services agreement with our Group; and five of which is new client obtained by our Group since 1 July 2020.

The number of clients of our aesthetic medical management consulting services dropped significantly in the fourth quarter of 2019 was because of an adjustment of our strategy in order to increase the profitability of our aesthetic medical management consulting services and to better serve our strategical need of business growth. Since the second half of 2019, instead of providing services to a large number of aesthetic medical institutions and physicians, we have been focusing on nurturing a small number of aesthetic medical institutions with high profitability and great growth potential which could be our targets of strategic acquisition in the future.

As at the Latest Practicable Date, we provided management consulting services to nine aesthetic medical institutions. Two of those aesthetic medical institutions were subsidiaries of a leading PRC aesthetic medical service provider listed on the NASDAQ Stock Market (the “**Listed Aesthetic Medical Group**”). We have been providing aesthetic medical management consulting services, including, in particular, services which improved their sales and marketing, such as formulating their overall sales and marketing plan, designing promotion and marketing activities and selecting appropriate e-commerce or other online platform to promote and market their aesthetic medical services, to such Listed Aesthetic Medical Group since 2018. Based on the prospectus and other public financial reports of such Listed Aesthetic Medical Group, its client acquisition costs per client has reduced by approximately 35.8% from the year ended 31 December 2017 to the year ended 31 December 2019.

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The key terms typically included in the aesthetic medical management consulting services agreements of our current clients are set out below:

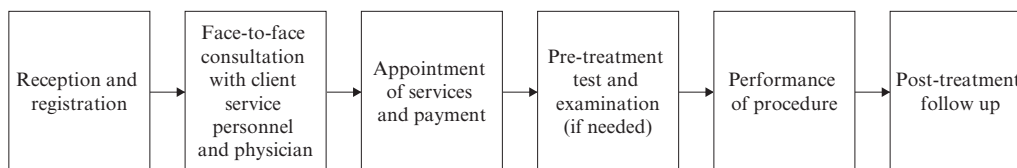
Contract period:	one year
Service scope:	Depending on clients' needs and requirements, our scope of service provided to our clients varied significantly, from designing the contents of clients' online platform to providing full range of management consulting services covering clients' sales and marketing and their operational procedures in aesthetic medical hospitals or clinics. Certain of our clients also require our staff to provide management consulting services on-site for certain period of time.
Service fees:	Depending on the scope of management consulting services required from our clients, we generally charge our clients an annual service fees. For certain of our clients to whom we provided wider range of services, we would also charge them performance bonus, being a certain portion of our clients' revenue/profit.
Consultant team:	Generally, we are required to have a designated service team, ranging from two to six members, for each of our clients.
Termination:	Generally, we are entitled to terminate the agreement if our clients failed to settle our service fees when they become due for a certain period of time. For certain of our clients to whom we also charge performance bonus, our clients are entitled to terminate the agreement if certain performance target in terms of revenue/profit have not been met by our clients.

We believe the business of provision of aesthetic medical management consulting services is strategically important for our business and potential growth. By providing such management consulting services, we can broaden our revenue stream by receiving consulting service fees. In addition, we can accumulate operational know-how and market conditions in the cities where the relevant aesthetic medical institutions and physicians are located. As at the Latest Practicable Date, we provided management consulting services to clients located in five different cities in the PRC, none of which was located in any of the cities where our aesthetic medical institutions locate; and save for the one located in Taizhou City in Zhejiang Province, none of which was located in Zhejiang Province or Anhui Province. We tend to strategically choose to provide aesthetic medical management consulting services to aesthetic medical institutions in new geographical markets with high profitability and great growth potential which could be our targets of strategic acquisition in the future.

## **OUR AESTHETIC MEDICAL SERVICE PROCESS**

From years of industry experience and accumulated know-how, we have adopted a standardized operational procedure across our aesthetic medical institutions.

The following diagram illustrates the key stages of the process of our aesthetic medical service:



### **Reception and registration**

When a client visits us for the first time, our receptionists ask the client to fill out a registration form that contains, among other things, the client's name, contact number, aesthetic goals and referral channel (including whether they had purchased any service online). We will then arrange clients to see our client service personnel directly.

### **Face-to-face consultation with client service personnel and physician**

All our client service personnel are well-trained to have a thorough knowledge of the full range of our aesthetic medical services which we offer and the type of treatment that is suitable for a particular aesthetic problem or concern. Our new client will first have face-to-face consultation with our client service personnel in which we review the registration form of our new client so as to better understand the concerns and needs of our client. Depending on the needs of our clients, we will then design and recommend the most suitable procedure to our clients to achieve desired aesthetic results, which maybe one-off service session, multiple service sessions of a single procedure or multiple types of procedures. Our client service personnel will also explain the prices of the recommended procedures as well as any promotion that is applicable to such recommendations.

Our clients will then consult our physicians who will review and confirm the proposed procedures with our client and explain the proposed procedures in details, including the objective, process, medical risks, the estimated recovery time, possible side effects and service fees, and answer any queries the client may have.

### **Appointment of services and payment**

After consultation with the physician, if the client remains interested in receiving our services, our client service personnel will make appointment for the relevant procedure.

Our client will then be asked to settle the service fees in full before receiving our service. For clients who have purchased our services through our online shops on e-commerce online platform, they will be asked to verify their purchase through the respective e-commerce online platform. In case where the final procedures the client decides

to purchase are not the same as their previous online purchase, they will be asked to cancel such online purchase through the respective e-commerce online platform themselves and settle the service fees for the final procedure on site.

**Pre-treatment test and examination (if needed)**

Based on the advice of the handling physicians, relevant physical examinations, such as blood test, skin test or computed tomography, may be required to be conducted to ensure the medical condition of the client is suitable for the relevant procedure. Our physicians will review the test results, and if our physicians consider that the client is not suitable for the procedure, the procedure will be cancelled and the payment will be refunded.

**Performance of procedure**

Immediately prior to the performance of any procedure, the responsible physician will confirm the identity of the client and explain again the proposed procedures to the client, including the objective and processes, medical risks, possible side effects, normal recovery period and answers any questions the client may have. Save for certain low risk aesthetic dermatology services, such as laser hair removal, each client is asked to study and sign a consent form, which, among others, requires the clients to acknowledge their understanding of the proposed procedure as explained by the responsible physician, the possible side effects of the procedure and their consent to undergo such procedure.

In compliance with the PRC laws and regulations, the attending in-charge physician responsible for each of our aesthetic surgery service and minimally-invasive aesthetic services is required to have at least six years of clinical working experience; while the attending in-charge physician responsible for each of aesthetic dermatology procedures is required to have at least three years of clinical working experience.

**Post-treatment follow up**

Subsequent to the performance of procedure, our medical staff will examine the client's conditions to ensure that they are suitable to be discharged and provide post-procedure treatment care tips to the client. Based on our physician's advice, clients may be prescribed with medication for more speedy recovery. For certain aesthetic surgical procedure, the in-patient procedure is applied for the recovery observation and post-surgery evaluation. If applicable, we generally will assist the client to book the next appointment.

**OUR PHYSICIANS AND MEDICAL STAFF**

The qualification and expertise of our physicians and other medical staff are vital to the quality of our services and our competitiveness.

**Physicians**

There are generally two types of physicians practicing at our aesthetic medical institutions: (i) physicians who are our employees and practice at our aesthetic medical institutions on full-time basis; and (ii) physicians who are not our employees and practice at

our aesthetic medical institutions on a contractual basis. Both of our employee physicians and contract physicians are registered in at least one of our aesthetic medical institutions in accordance with the physician registration system stipulated by relevant healthcare administrative authorities.

Physicians who are our employees practice at our aesthetic medical institutions on full-time basis. We enter into employment contracts with them in accordance with relevant labour laws and regulations in the PRC. We are responsible for making social insurance and housing provident fund contributions for and on behalf of them. The remuneration of our employee physicians comprises base salary and performance based bonus. As at 30 June 2020, we had 52 employee physicians with average industry experience of approximately 11 years.

Physicians who are not our employees, or our contract physicians include employees or contract physicians of third party aesthetic medical institutions. They practice at our aesthetic medical institutions either full-time or part-time on a contractual basis. We enter into service contracts instead of employment contracts with them, pursuant to which they agree to practice at our aesthetic medical institutions on a full-time or part-time basis for compensation. Either party to the engagement agreement may terminate it with one-month notice. We are not responsible for making social insurance and housing provident fund contributions for and on their behalves. The remuneration of our contract physicians generally comprises base salary. As at 30 June 2020, we had 12 contract physicians with average industry experience of approximately 15 years. Our contract physicians provide us with flexible manpower to help us to satisfy clients' demand in peak days and peak seasons for our aesthetic medical services. In addition, certain of them are well-known physicians or renowned experts in their respective fields. We invite them to practice at our aesthetic medical institutions which we believe can enhance the quality and reputation of our practice. We believe our employee physicians and other medical staff can benefit from their on-the-job interactions with these experts and through specific in-house trainings carried out by these experts. Such arrangement is consistent with industry practice that private aesthetic medical institutions seek to hire physicians from other aesthetic medical institutions to improve their service level and quality. Unless specified otherwise, references to physicians in this prospectus refer to both our employee physicians and our contract physicians.

There are four qualifications and corresponding professional ranks for physicians in the PRC: (i) chief physician; (ii) associate-chief physician; (iii) attending physician; and (iv) resident physician. For the three years ended 31 December 2019 and the six months ended 30 June 2020, we had an average of 19, 25, 40 and 40 physicians, with average salary of approximately RMB23,700, RMB21,100, RMB21,500 and RMB13,700 per month, respectively. As at 30 June 2020, our physicians included seven chief physicians, 16 associate chief physicians, 20 attending physicians and 21 resident physicians. As at the Latest Practicable Date, six out of the seven chief physicians were our employees.

As at the Latest Practicable Date, each of our physicians had obtained the physician qualification certificate. We closely monitor the qualification registration and licensing records on a continuing basis to ensure that all our physicians comply with all applicable

requirements under the PRC laws and regulations, in particular, each physician's practice is within the scope of his or her qualification and license. During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the paragraph headed "Legal Proceedings and Compliance — Non-compliance Incidents" in this section, we were not aware of any material complaints or penalties in relation to our physicians practicing beyond the scope of their respective licenses.

### **Medical staff**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, we had an average of 89, 111, 120 and 111 medical staff, with average salary of approximately RMB4,200, RMB6,800, RMB7,900 and RMB6,500 per month, respectively. As at 30 June 2020, we had 103 medical staff, which primarily include assistant physicians (執業助理醫師), medical graduates, nurses and pharmacists. Our medical graduates from medical universities work at our aesthetic medical institutions as assistants for at least one year and they can take up the role of resident physicians after successfully obtaining the physician qualification certificates (醫師資格證書).

As at the Latest Practicable Date, each of our other medical staff (except for medical graduates) had obtained the necessary qualification certificate for his or her medical practice in the PRC. During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the paragraph headed "Legal Proceedings and Compliance — Non-compliance Incidents" in this section, we did not encounter any material complaints or penalties in relation to our medical staff practicing beyond the scope of their respective licenses.

### **Recruitment and retention of physicians and medical staff**

We generally recruit physicians and medical staff through placing advertisements in the market. We generally check and verify the background of the candidates to be recruited to ensure they have the required working experience and qualifications for the positions. We believe we provide our physicians and medical staff with competitive compensation packages, continued medical education opportunities and a professional working environment. As such, we are able to keep the turnover rate of our employee physicians and medical staff at a low level during the Track Record Period. Our employee physicians turnover rate, which is calculated by dividing the average monthly number of employee physicians resigned by the average monthly number of employee physicians of the relevant year/period, were 2.5%, 2.6%, 1.8% and 2.5% for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. Our medical staff turnover rate, which is calculated by dividing the average monthly number of medical staff resigned by the average monthly number of medical staff of the relevant year/period, were 3.5%, 3.5%, 3.8% and 8.1% for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. The increase of our medical staff turnover rate for the six months ended 30 June 2020 from the year ended 31 December 2019 was mainly due to the increased number of leaving medical staff, especially for Raily Tiange where there was a temporary suspension of its aesthetic surgery services from May 2020 to June 2020 as a result of an accidental sewage piping leakage causing a drastic drop in the medical staff's performance-



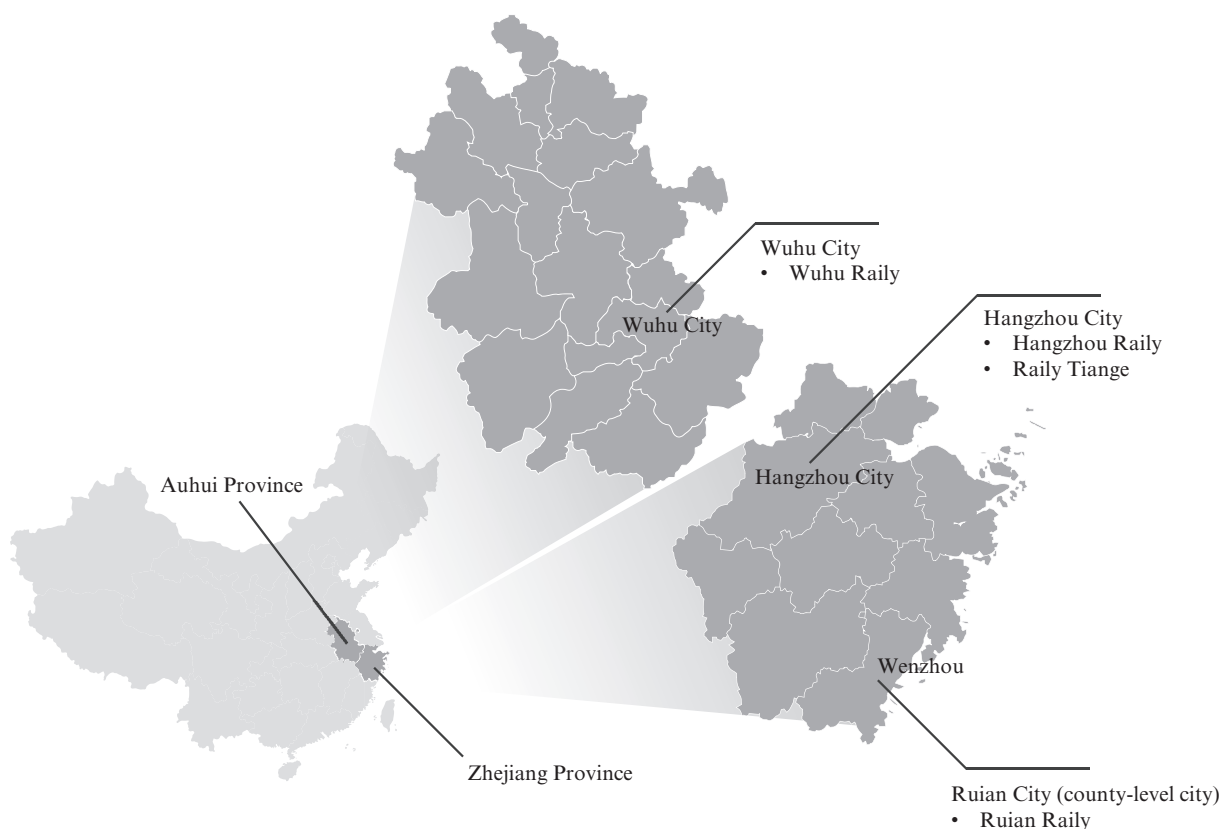
based bonus, which in turn became the major pull factor for those leaving medical staff. In light of the decrease in the demand of our services due to the impact of outbreak of COVID-19 in the first half of 2020, we have been less active in recruiting the replacement for such leaving medical staff during the period, leading to higher medical staff turnover rate during the same period.

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 considered 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 review their profile to ensure compliance with relevant laws and regulations in the PRC.

Our physicians and other medical staff receive training on the operation of medical equipment, service processes and the latest technologies or developments in their relevant fields from time to time. In particular, we provide on-the-job training on relevant internal policies, protocols, procedures and implement standardized assessments. In addition, we send selected physicians and medical staff to attend external seminars or academic conference in their relevant fields to know about the latest technological and market updates.

## OUR AESTHETIC MEDICAL INSTITUTIONS

As at the Latest Practicable Date, we operated four aesthetic medical institutions in the PRC while three of them were located in Zhejiang Province and one of them was located in Anhui Province. All of our aesthetic medical institutions are operated under trade names, “瑞麗” and “瑞麗整形”, together with our registered trademark “Raily”. For further details, please refer to the section headed “Risk Factors — Risk Relating to our Business — Our brand, market reputation and consumer perception contribute significantly to our continued success and growth. Any failure to maintain, or any damage to, our brand, market reputation and/or consumer perception could materially and adversely affect our results of operations and prospects” in this prospectus. Set out below is an illustration of the locations of our aesthetic medical institutions as at the Latest Practicable Date:



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The following table sets forth certain operational data of our aesthetic medical institutions as at 30 June 2020:

Aesthetic Medical Institutions	Date of commencement of operation	Approximate GFA (sq.m.)	Number of physicians	Classification <sup>(1)</sup>	Number of operation rooms	Number of service rooms <sup>(2)</sup>
Hangzhou Raily	August 2013	2,751	34	I	4	28
Ruian Raily	March 2013	2,861	14	I	3	19
Raily Tiange	August 2008	986	8	II	2	11
Wuhu Raily	July 2015	1,374	8	II	2	13

*Notes:*

- (1) “I” denotes an aesthetic medical specialty hospital and “II” denotes an aesthetic medical specialty out-patient department, while aesthetic medical specialty hospitals are allowed to perform more complex aesthetic surgical procedures than aesthetic medical specialty out-patient departments.
- (2) Service rooms include consultation rooms, injection rooms, treatment rooms, dental services rooms and other service rooms.

Save for some pre-treatment tests, such as blood test, none of our aesthetic medical services have been outsourced to third parties during the Track Record Period and up to the Latest Practicable Date. The following table sets forth the breakdown of our revenues from our aesthetic medical services by our aesthetic medical institutions during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017	% of total revenue	2018	% of total revenue	2019	% of total revenue	2019	% of total revenue	2020	% of total revenue
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
	<i>(unaudited)</i>									
Hangzhou Raily	56,190	49.8	73,293	50.1	94,488	51.5	45,112	50.9	30,165	52.5
Ruian Raily	13,892	12.3	18,593	12.7	26,475	14.4	10,791	12.2	8,821	15.3
Raily Tiange	23,927	21.2	30,884	21.1	37,832	20.6	22,123	24.9	8,385	14.6
Wuhu Raily	18,923	16.7	23,486	16.1	24,814	13.5	10,673	12.0	10,105	17.6
<b>Total revenue from aesthetic medical services<sup>(1)</sup></b>	<b>112,932</b>	<b>100.0</b>	<b>146,256</b>	<b>100.0</b>	<b>183,609</b>	<b>100.0</b>	<b>88,699</b>	<b>100.0</b>	<b>57,476</b>	<b>100.0</b>

*Note:*

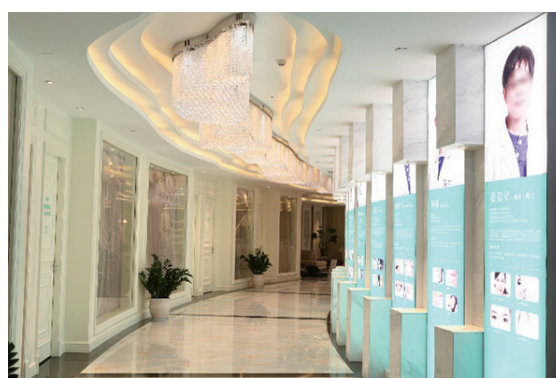
- (1) It does not include revenue generated from aesthetic medical management consulting services.

### *Hangzhou Raily*

Hangzhou Raily began its operation in August 2013. It locates at No. 290, Zhongshan North Road, Xiacheng District, Hangzhou City, Zhejiang Province, PRC with GFA of approximately 2,751 sq.m., which houses five consultation rooms, three injection rooms, four dental service rooms, 12 treatment rooms, four other service rooms and four operation rooms.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, approximately 13,242, 22,925, 27,358 and 14,429 active clients, meaning clients who have received at least one aesthetic medical procedures in the relevant financial period, have visited our Hangzhou Raily, respectively, representing approximately 45.3%, 47.9%, 39.2% and 46.4% of our total active clients for the same period, respectively.

The primary services provided by Hangzhou Raily include aesthetic surgery services, minimally-invasive aesthetic services, aesthetic dermatology services and aesthetic dental services.



### *Ruian Raily*

Ruian Raily began its operation in March 2013. It locates at No. 1-11, Anyang Road, Ruian City, Wenzhou, Zhejiang Province, PRC with GFA of approximately 2,861 sq.m., which houses five consultation rooms, two injection rooms, eight treatment rooms, four other service rooms and three operation rooms.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, approximately 3,045, 5,502, 14,917 and 7,701 active clients, meaning clients who have received at least one aesthetic medical procedures in the relevant financial period, have visited our Ruian Raily, respectively, representing approximately 10.4%, 11.6%, 21.4% and 24.8% of our total active clients for the same period, respectively.

The primary services provided by Ruian Raily include aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services.



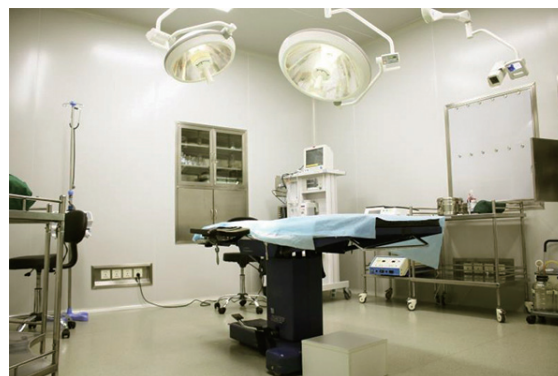


### *Raily Tiange*

Raily Tiange began its operation in August 2008. It locates at No. 166-1 Yugu Road, Xihu District, Hangzhou City, Zhejiang Province, PRC with GFA of approximately 986 sq.m., which houses four consultation rooms, one injection room, three treatment rooms, three other service rooms and two operation rooms. Raily Tiange is positioned to provide premium service experience to clients including a more spacious and private environment with shorter waiting time.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, approximately 3,560, 7,090, 8,677 and 3,392 active clients, meaning clients who have received at least one aesthetic medical procedures in the relevant financial period, have visited our Raily Tiange, respectively, representing approximately 12.2%, 14.8%, 12.4% and 10.9% of our total active clients for the same period, respectively.

The primary services provided by Raily Tiange include aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services.





### *Wuhu Raily*

Wuhu Raily began its operation in July 2015. It occupies the first to third floors at No. 1 Jinghu road, Jinghu District, Wuhu City, Anhui Province, PRC with GFA of approximately 1,374 sq.m., which houses four consultation rooms, one injection room, five treatment rooms, three other service rooms and two operation rooms.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, approximately 9,384, 12,268, 18,883 and 5,558 active clients, meaning clients who have received at least one aesthetic medical procedures in the relevant financial period, have visited our Wuhu Raily, respectively, representing approximately 32.1%, 25.7%, 27.0% and 17.9% of our total active clients for the same period, respectively.

The primary services provided by Wuhu Raily include aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services.



**Breakeven and investment period**

Significant costs will be incurred in the course of opening a new aesthetic medical institution. The establishment of our aesthetic medical institutions was mainly funded by our internal resources and interest free shareholders' loans. After Listing, our expansion of aesthetic medical institution network will be funded by the net proceeds from the Global Offering, internal resources and/or external financing. For details of our future plans, please refer to the paragraph headed "Our Strategies" in this section.

According to the Frost & Sullivan Report, the length of investment payback period of an aesthetic medical institution is generally affected by (i) size of the aesthetic medical institution; (ii) operation model; (iii) operating location; (iv) brand reputation of the aesthetic medical institution; and (v) marketing strategy and expenses. Based on our previous operating experience and current market condition (without taking into account the impact or potential impact of the occurrence of any natural disasters, acts of God or pandemics, including COVID-19), we aim to achieve breakeven for our proposed new hospital in Shanghai City within 36 months and investment payback within 80 months.

All of our four aesthetic medical institutions have achieved breakeven and investment payback as at the Latest Practicable Date. We set forth below the breakeven and investment payback periods of our aesthetic medical institutions as at the Latest Practicable Date:

<b>Aesthetic medical institutions</b>	<b>Breakeven period<sup>(1)</sup></b>	<b>Investment payback period<sup>(2)</sup></b>
Hangzhou Raily	29 months	52 months
Ruian Raily	22 months	47 months
Raily Tiange	12 months	45 months
Wuhu Raily	19 months	41 months

*Notes:*

1. The approximate period from the commencement of operations of an aesthetic medical institution to the time when its monthly revenue first sufficiently covers its monthly operating expenses.
2. The approximate period from commencement of operations of an aesthetic medical institution to the time when its accumulated net cash inflow is able to cover the total initial investment amount for its establishment (which includes investment by equity and shareholder loans).

**Equipment**

Our aesthetic medical service equipment is used for performing various treatment procedures mainly including aesthetic surgical procedures and energy-based procedures. All aesthetic medical service equipment deployed by us has been critically evaluated and assessed by physicians, based on their clinical knowledge and experience to ensure that our equipment is safe and capable of producing the desired results for our clients.

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For the three years ended 31 December 2019 and the six months ended 30 June 2020, we incurred approximately RMB2.2 million, RMB8.8 million, RMB6.7 million and RMB1.5 million on the acquisition of aesthetic medical service equipment which was generally funded by our internal resources. None of our aesthetic medical service equipment is leased from third parties. In view of the growing business opportunities in the industry, we will continue to acquire new aesthetic medical service equipment in the future to enhance our capacity and quality of service. Set forth below is a table summarizing the approximate weighted average remaining useful lives of certain types of our key aesthetic medical service equipment:

Type of equipment	Number of units	Approximate weighted average remaining life <sup>(1)</sup> (Years)	Net book value as at 30 June 2020 (RMB'000)
Surgery related <sup>(2)</sup>	41	3.6	1,093
Laser	24	3.7	7,302
Skin hydrating	12	2.6	129
Radiofrequency	8	3.7	1,036

*Notes:*

- (1) The weighted average of remaining useful life assumes a useful life of three to five years for each unit of equipment based on our accounting policy for depreciation of equipment. The actual length that we will use the equipment may be different from the estimates due to reasons such as periodic maintenance.
- (2) Surgery related aesthetic medical service equipment include semiconductor laser therapeutic equipment, liposuction machine and other equipment in relation to our aesthetic surgical services.

According to our accounting policies, depreciation of our aesthetic medical service equipment is calculated using the straight line method to allocate their cost to their residual values over its estimated useful lives of three to five years. We do not have a specific replacement cycle for our equipment and we will only replace them when necessary. Replacement decisions are made on a case-by-case basis having regard to the factors such as the operating conditions and cost effectiveness. Our Directors consider that our major aesthetic medical service equipment are in good conditions as at the Latest Practicable Date.

We perform regular maintenance on our aesthetic medical service equipment in accordance with the relevant suggestions by the respective manufacturers.

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Set out below are the photos of some of our common aesthetic medical service equipment:

**Surgery related**



**Laser**



**Skin hydrating**



**Radiofrequency**



### Utilisation Rate of our Aesthetic Medical Institutions

The table below sets out details of the utilisation of our aesthetic medical institutions for the period indicated:

Aesthetic medical institution	2017			Year ended 31 December 2018			2019			Six months ended 30 June 2020			Nine months ended 30 September 2020		
	Service capacity <sup>(1)</sup>	Actual number of hours of services offered <sup>(2)</sup>	Utilisation rate <sup>(3)</sup> %	Service capacity <sup>(1)</sup>	Actual number of hours of services offered <sup>(2)</sup>	Utilisation rate <sup>(3)</sup> %	Service capacity <sup>(1)</sup>	Actual number of hours of services offered <sup>(2)</sup>	Utilisation rate <sup>(3)</sup> %	Service capacity <sup>(1)</sup>	Actual number of hours of services offered <sup>(2)</sup>	Utilisation rate <sup>(3)</sup> %	Service capacity <sup>(1)</sup>	Actual number of hours of services offered <sup>(2)</sup>	Utilisation rate <sup>(3)</sup> %
Hangzhou Raily	72,420	44,314	61.2	117,860	97,486	82.7	121,410	99,577	82.0	62,244	31,797	51.1	93,708	59,051	63.0
Ruian Raily	36,920	8,541	23.1	51,120	22,209	43.4	65,320	46,289	70.9	33,488	14,256	42.6	66,856	34,391	51.4
Raily Tiange	34,080	12,875	37.8	34,080	17,885	52.5	34,080	28,439	83.4	17,472	6,491	37.2	26,304	16,571	63.0
Wuhu Raily	34,080	17,442	51.2	34,080	20,166	59.2	34,080	31,049	91.1	32,032	19,992	62.4	48,224	31,034	64.4
<b>Total</b>	<b>177,500</b>	<b>83,172</b>	<b>46.9</b>	<b>237,140</b>	<b>157,746</b>	<b>66.5</b>	<b>254,890</b>	<b>205,354</b>	<b>80.6</b>	<b>145,236</b>	<b>72,536</b>	<b>49.9</b>	<b>235,092</b>	<b>141,047</b>	<b>60.0</b>

Notes:

- (1) The service capacity for each period refers to the maximum number of service hours we can provide in our medical institution for each period which is calculated based on the product of: (i) the number of servicing sites in our aesthetic medical institutions dedicated for a specific type of aesthetic medical procedures (being the number of operation rooms for aesthetic surgical procedures and number of hospital beds dedicated for aesthetic injection procedures and energy-based procedures respectively); (ii) the maximum number of servicing hours per day (being 8 hours for operation room and 10 hours for hospital beds); and (iii) 355 working days for each of the three years ended 31 December 2019, 182 working days for the six months ended 30 June 2020 or 274 working days for the nine months ended 30 September 2020.
- (2) The actual number of hours of service offered is calculated for illustrative purpose only. In the calculation, we have, based on our experience, estimated the average service time for each specific type of procedures (including set-up time).
- (3) Utilisation rate is calculated by dividing the actual number of hours of services offered by service capacity in each period.

The increasing trend of the utilisation rate of our aesthetic medical institutions for the three years ended 31 December 2019 was mainly due to the increase in aesthetic medical procedures performed for the years driven by the increase in overall number of clients. The utilisation rate of our aesthetic medical institutions increased significantly from 46.9% for the year ended 31 December 2017 to 66.5% for the year ended 31 December 2018, which is largely attributable to the implementation of new business retail strategy brought about by the joining of Mr. Yu as an executive Director and the Chief Executive Officer in October 2017. Prior to the joining of Mr. Yu, our Group was principally managed by our Chairman, Mr. Fu and our executive Director, Mr. Song Jianliang. We invited Mr. Yu and his team in Guangzhou Yingjieshi to join our Group so that their expertise in aesthetic medical management consulting could strengthen our management whom had extensive technical medical experience and contribute positively to our overall performance and business expansion.

Under the leadership of our strengthened management with new business retail philosophy to capture the massively blooming pool of target consumers, being young females whose purchasing patterns are heavily influenced by key opinion leaders and influencers and are in the habit of online purchasing, we fortified our online sales and marketing as our key brand building and client acquisition channel. Our promotion and marketing expenses have increased significantly by approximately 50.3% or RMB7.6 million, from the year ended 31 December 2017 to the year ended 31 December 2018, which was driven by the increase in online sales and marketing. In addition, in order to increase our competitiveness on online platforms, we adopted competitive pricing strategy complimentary to our online marketing efforts which further increase our client flow.

Our fortified efforts in online sales and marketing were first applied to Hangzhou Raily, being our flagship institution with the largest service capacity, during 2018 and as a result of which, the utilisation rate of Hangzhou Raily increased by 21.5 percentage points from the year ended 31 December 2017 to the year ended 31 December 2018. Such increase of utilisation rate of Hangzhou Raily contributed principally to the increase of our overall utilization rate for the year ended 31 December 2018 from the year ended 31 December 2017. We subsequently applied fortified efforts in online sales and marketing for Ruian Raily, Raily Tiange and Wuhu Raily, which had significantly improved the utilisation rate of each of these aesthetic medical institutions, and drove up our overall utilization rate further to approximately 80.6% for the year ended 31 December 2019.

The decrease of the overall utilisation rate of our aesthetic medical institutions for the six months ended 30 June 2020 was principally due to the decrease in aesthetic medical procedures performed for the period led by the decrease in overall number of clients. Such decrease of performance was mainly attributable to (i) the temporary suspension of operation due to the outbreak of COVID-19 from 1 February 2020 to the date of the respective partial resumption of operation of our aesthetic medical institutions in March 2020; (ii) the subsequent partial resumption of operation of our aesthetic medical institutions in March 2020 until the full resumption in April 2020; and (iii) the outbreak of COVID-19 pandemic which severely and adversely affected our clients' willingness in visiting our aesthetic medical institutions and the general consumer spending sentiment in aesthetic medical services. In particular, the utilisation rate of Raily Tiange decreased more



drastically than other aesthetic medical institutions for the six months ended 30 June 2020, which was mainly due to the temporary suspension of its aesthetic surgery services from May 2020 to June 2020 as a result of an accidental sewage piping leakage in proximity of operation rooms. Our overall utilisation rate for the six months ended 30 June 2020 would reach approximately 61.9% if the period of temporary suspension of operation due to the outbreak of COVID-19 from 1 February 2020 to the date of the respective partial resumption of operation of our aesthetic medical institutions in March 2020 was excluded from the calculation of the number of working days for the six months ended 30 June 2020.

Due to the gradual recovery of the Group's aesthetic medical business from the impact of the outbreak of COVID-19 with an increased number of client visits and number of procedures performed, the overall utilization rate of our aesthetic medical institutions for the nine months ended 30 September 2020 improved and reached approximately 60.0%, while the utilization rate of each of Hangzhou Raily, Ruian Raily, Raily Tiange and Wuhu Raily has increased to approximately 63.0%, 51.4%, 63.0% and 64.4%, respectively.

During the Track Record Period, it is estimated that we would achieve breakeven on our profit and total comprehensive income for the year if the utilization rate of Hangzhou Raily, Ruian Raily, Raily Tiange and Wuhu Raily achieved approximately 42.3%, 19.1%, 25.3% and 49.8% respectively for the year ended 31 December 2017, approximately 63.9%, 34.7%, 33.0% and 48.7% respectively for the year ended 31 December 2018, approximately 59.7%, 57.3%, 55.0% and 81.2% respectively for the year ended 31 December 2019 and approximately 48.4%, 41.4%, 45.9% and 59.4% respectively for the six months ended 30 June 2020, with all other variables remaining constant.

## **OUR CLIENTS**

During the Track Record Period, all of our clients for aesthetic medical services were individual retail clients, and clients for our management consulting services were aesthetic medical institutions and individual physicians.

### **Clients for Aesthetic Medical Services**

Our active clients, meaning clients who have received at least one aesthetic medical procedure in the relevant period were 29,231, 47,785, 69,835 and 31,080 for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. Our clients are predominantly females. We served clients of different age groups, but a majority of which were aged between 18 to 34 during the Track Record Period.

During the Track Record Period, certain clients of our Group's aesthetic medical services were employees of our Group and/or connected persons of our Company. For the three years ended 31 December 2019 and the six months ended 30 June 2020, 145, 156, 197 and 228 clients of our Group's aesthetic medical services, respectively, were employees and/or connected persons of our Company as at 30 June 2020. The revenue generated from such clients amounted to approximately RMB0.4 million, RMB0.7 million, RMB0.3 million and RMB0.2 million, representing approximately 0.3%, 0.4%, 0.2% and 0.2% of our Group's revenue for the three years ended 31 December 2019 and the six months ended 30 June 2020,



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respectively. Our Directors confirmed that no discounts were specially offered to our employees or connected persons of our Company and that the prices offered to them were same as the prices offered to Independent Third Parties.

The following table sets out the number of repeat clients and new clients for our aesthetic medical services during the period indicated for each of our aesthetic medical institution:

	Year ended 31 December				Six months ended 30 June					
	2017		2018		2019		2019		2020	
	Number of	% of	Number of	% of	Number of	% of	Number of	% of	Number of	% of
	clients	active	clients	active	clients	active	clients	active	clients	active
<b>New clients<sup>(1)</sup></b>	<b>14,059</b>	<b>48.1</b>	<b>25,230</b>	<b>52.8</b>	<b>34,106</b>	<b>48.8</b>	<b>17,656</b>	<b>48.7</b>	<b>13,928</b>	<b>44.7</b>
— Hangzhou Raily	7,498	25.6	13,201	27.6	15,425	22.1	7,706	21.3	7,447	24.0
— Ruian Raily	1,290	4.4	2,611	5.5	6,765	9.7	3,897	10.8	2,213	7.1
— Raily Tiange	1,538	5.3	4,775	10.0	5,784	8.3	2,891	8.0	1,959	6.3
— Wuhu Raily	3,733	12.8	4,643	9.7	6,132	8.8	3,162	8.6	2,309	7.3
<b>Repeat clients<sup>(2)</sup></b>	<b>15,172</b>	<b>51.9</b>	<b>22,555</b>	<b>47.2</b>	<b>35,729</b>	<b>51.2</b>	<b>18,574</b>	<b>51.3</b>	<b>17,152</b>	<b>55.3</b>
— Hangzhou Raily	5,744	19.7	9,724	20.3	11,933	17.1	6,130	16.9	6,982	22.5
— Ruian Raily	1,755	6.0	2,891	6.1	8,152	11.7	4,076	11.3	5,488	17.7
— Raily Tiange	2,022	6.9	2,315	4.8	2,893	4.1	2,194	6.1	1,433	4.6
— Wuhu Raily	5,651	19.3	7,625	16.0	12,751	18.3	6,174	17.0	3,249	10.5
<b>Active clients<sup>(3)</sup></b>	<b>29,231</b>	<b>100.0</b>	<b>47,785</b>	<b>100.0</b>	<b>69,835</b>	<b>100.0</b>	<b>36,230</b>	<b>100.0</b>	<b>31,080</b>	<b>100.0</b>

Notes:

- (1) New clients refer to clients who have purchased at least one aesthetic medical procedure provided by us in the relevant year/period for the first time.
- (2) Refer to clients who (i) are active clients; and (ii) have previously purchased at least one aesthetic medical procedure provided by us.
- (3) Active clients refer to clients who have purchased at least one aesthetic medical procedure in the relevant year/period provided by us.

### Clients for Aesthetic Medical Management Consulting Services

For details of our clients of aesthetic medical management consulting services, please refer to the paragraph headed “Our Services — Aesthetic Medical Management Consulting Services” in this section.

### Payment for our Aesthetic Medical Services

Clients are required to pay our service fees in full before receiving our aesthetic medical services. Payment received for our aesthetic medical services will be recognised as revenue in our consolidated statements of profit or loss and other comprehensive income only when the procedure is performed, except for our payment received from our fixed-term service plans as described below.

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In general, we offer aesthetic surgical procedures as one-off service since the aesthetic effect of most of our aesthetic surgical procedures performed may last indefinitely. Clients are required to pay for the one-off service in full before receiving such service.

For aesthetic dermatology procedures and minimally-invasive aesthetic procedures, since the aesthetic effects of which would diminish after a period of time, regular or repeated sessions are required in order to achieve and/or maintain the desired aesthetic results, multiple sessions may be required to maintain the desired aesthetic results. Clients may either pay for the service fees of each service session each time, or purchase our service plans and prepay for multiple sessions.

During the Track Record Period, we offered two types of service plans where clients are required to prepay for multiple sessions as detailed below. For more details, please refer to the section headed “Financial Information — Selected Items of Consolidated Statements of Financial Position — Contract liabilities” and “Financial Information — Selected Items of Consolidated Statements of Financial Position — Other payables and accruals” this prospectus.

The following table sets out the breakdown of revenue from aesthetic medical services by service session and type of service plans during the Track Record Period:

	Year ended 31 December				Six months ended			
	2017		2018		2019		30 June 2020	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
<b>One-off session</b>	97,750	86.5	126,855	86.7	142,622	77.7	46,379	80.7
<b>Multiple sessions</b>								
— <i>Fixed-session service plans</i>	14,058	12.5	17,730	12.1	38,481	21.0	9,994	17.4
— <i>Fixed-term service plans</i>	1,124	1.0	1,671	1.2	2,506	1.3	1,103	1.9
<b>Total revenue of aesthetic medical services</b>	<u>112,932</u>	<u>100.0</u>	<u>146,256</u>	<u>100.0</u>	<u>183,609</u>	<u>100.0</u>	<u>57,476</u>	<u>100.0</u>

### *Fixed-session service plans*

In order to attract new clients, boost repeated visits and increase the loyalty of our clients, we offer fixed-session service plans where our clients may enjoy repeated sessions of a procedure at a discounted price. Our fixed-sessions service plans cover aesthetic dermatology procedures where aesthetic results of which would diminish after a period of time and would thus require regular or repeated sessions in order to achieve and/or maintain the optimal aesthetic results, such as microneedle therapy system and photo rejuvenation procedures. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our fixed-session service plans contributed revenue of approximately RMB14.1 million, RMB17.7 million, RMB38.5 million and RMB10.0 million, respectively, representing approximately 12.5%, 12.1%, 21.0% and 17.4% of our total revenue derived from aesthetic medical services for the same year/period.

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The following are the key characteristics of our fixed-session service plans offered to our clients during the Track Record Period:

- covers one type of specific aesthetic dermatology procedure. During the Track Record Period, we offered fixed-session service plan for aesthetic dermatology procedures, such as microneedle therapy system and photo rejuvenation procedures;
- fixed-session service plans are valid for an indefinite period of time without expiry;
- clients will receive a fixed number of sessions of the specific type of procedure; and
- fixed-session service plan is not transferable to other third party.

As part of our internal controls, we monitor and manage clients' unused session of the fixed-session service plans by (i) arranging booking of the next appointment of service when our clients completed one procedure and reminding them of any booked session of procedure prior to the reserved time; and (ii) reminding our clients of the remaining unused sessions of the service plans every time they received service at our aesthetic medical institutions and from time to time. Although there are no written contractual agreement between clients and us for refund, we will refund the purchase price in full of the unused sessions for any causes upon clients' request, for maintaining our clients' satisfaction level towards our services and our market reputation. Given (i) our management will assess the relevant service capacity of the aesthetic medical institution considering the existing service plans we previously offered before the launching of new fixed-session services plan; (ii) purchases of fixed-session service plans only represented a relatively small portion of our total revenue of aesthetic medical services, being less than 22% for each of the period during our Track Record Period; (iii) the relevant internal controls mentioned above to monitor and manage clients' unused session of fixed-session services plan sold; and (iv) our flexible arrangement of manpower for peak days and seasons based on our past operational experience, our Directors believe that our Group can maintain sufficient capacity to provide services to clients who purchased fixed-session service plans.

Payments received for such fixed-session service plan are recorded as contract liabilities in our consolidated statements of financial position at the time of payment and are subsequently recognized as revenue in our consolidated statements of profit or loss at the time the procedure is delivered. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our contract liabilities attributable to our fixed-session service plan amounted to approximately RMB0.5 million, RMB1.6 million, RMB3.6 million and RMB3.9 million, respectively. Any refund of the purchase price of the unused sessions requested by clients will be directly deducted from the contract liabilities recorded in our consolidated statements of financial position.

***Fixed-term service plans***

Our fixed-term service plans primarily cover types of procedure which are relatively low in value and require multiple sessions to achieve and/or maintain the desired aesthetic effects. During the Track Record Period, we offered fixed-term service plan for minimally-invasive aesthetic procedures, such as injection of botulinum toxin type A; and aesthetic dermatology procedures such as laser hair removal; and teeth cleansing and polishing and basic facial treatment. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our fixed-term service plans contributed revenue of approximately RMB1.1 million, RMB1.7 million, RMB2.5 million and RMB1.1 million, respectively, representing approximately 1.0%, 1.2%, 1.4% and 1.9% of our total revenue derived from aesthetic medical services for the same period.

The following are the key characteristics of our fixed-term service plans offered to our clients during the Track Record Period:

- covers one type of specific procedure. During the Track Record Period, we offered service plan for laser hair removal, injection of botulinum toxin type A, teeth cleansing and polishing, and facial treatment for our fixed-term service plans;
- fixed-term service plans are generally valid for one-year or two-year period and cannot be extended;
- clients may receive unlimited number of sessions of the specific type of procedure during the validity of the service plan. Our physicians, however, would recommend the most suitable schedule and number sessions that would achieve the desired aesthetic results of the clients. For example, for laser hair removal, depends on the physical conditions of the client and the treatment area, a periodic session would be recommended;
- fixed-term service plan is not transferable to other third party;
- fixed-term service plans are usually not of high value. During the Track Record Period, almost all of our fixed-period service plans were priced below RMB1,000; and
- clients are required to pay the service fees in full before their first session of the specific type of procedure.

Payments received for such fixed-term service plan are recorded as contract liabilities in our consolidated statements of financial position at the time of payment and are subsequently recognized as revenue in our consolidated statements of profit or loss over the service period of our fixed-term service plans on a straight-line basis. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our contract liabilities attributable to our fixed-term service plan amounted to approximately RMB0.2 million, RMB0.4 million, RMB1.6 million and RMB1.7 million, respectively. Although there are no written contractual agreements between clients and us for refund, we will refund the purchase price in full of the service plan after deducting the aggregate original price of the procedures already delivered

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for any causes before the expiry of such plans upon clients' request, for maintaining our clients' satisfaction level towards our services and our market reputation. Any refund of the purchase price of the service plan after deducting the aggregate original price of the procedures already delivered will be directly deducted from the contract liabilities recorded in our consolidated statements of financial position.

Usually coupling with our marketing and promotional efforts, we strategically offer fixed-term service plans to our clients. Our Directors believe, with the unique features of our fixed-term service plans designed for repeated session of relatively low-valued procedures at a bargained price, we can attract new clients and increase the frequency of visits of our clients to our aesthetic medical institutions, and in turn increase the loyalty of our clients and our success in cross-selling our other aesthetic medical services.

We adopted a set of standardized complaint management measures and procedures to handle all our client complaints including the complaints in relation to the fixed-term service plan and fixed session service plan. For more details, please refer to the paragraph headed "Client Complaints Management" in this section.

### Settlement methods

The table below sets forth our revenue by settlement methods for the years indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
POS system <sup>(1)</sup>	48,656	43.1	86,014	54.1	125,034	65.4	61,980	67.3	40,281	68.6
Third-party payment platforms <sup>(2)</sup>	49,420	43.8	31,011	19.5	21,058	11.0	10,558	11.5	5,652	9.6
Online shops	6,951	6.2	23,273	14.6	33,379	17.5	14,480	15.7	10,505	17.9
Others <sup>(3)</sup>	7,905	6.9	18,637	11.8	11,685	6.1	5,063	5.5	2,292	3.9
	<u>112,932</u>	<u>100.0</u>	<u>158,935</u>	<u>100.0</u>	<u>191,156</u>	<u>100.0</u>	<u>92,081</u>	<u>100.0</u>	<u>58,730</u>	<u>100.0</u>

Notes:

- (1) POS system represents on-site purchases through POS machine, including credit card, debit card, Alipay and Wechat, during clients' visits to our aesthetic medical institution.
- (2) Third-party payment platform represents payment from our clients via agent for provision of online instalment service and direct settlement with client via Alipay and Wechat.
- (3) Others primarily represent cash and bank transfer.

### **Our Five Largest Clients**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, revenue from our five largest clients collectively contributed approximately 1.1%, 2.7%, 2.7% and 2.4% to our total revenue for the same periods, respectively. All of our five largest clients for the year ended 31 December 2017 were individual clients of our aesthetic medical services; while since we began to provide management consulting services to third party since December 2017, our five largest clients for the two years ended 31 December 2019 and the six months ended 30 June 2020 were either individual clients of our aesthetic medical services or aesthetic medical institutions of our aesthetic medical management consulting services. To the best knowledge of our Directors, all of our five largest clients during the Track Record Period are Independent Third Parties. None of our Directors, their respective associates or any shareholder owns more than 5% of our issued share capital had any interest in any of our five largest clients, who are corporate entities, during the Track Record Period. None of our five largest clients was also our supplier during the Track Record Period.

### **CLIENT FEEDBACK MANAGEMENT**

As a measure to enhance client loyalty and establish long-term relationships with our clients, we have implemented a robust client feedback management system as part of our after sales services to ascertain clients' satisfaction level towards our services and actively manage clients' feedback.

According to the Frost & Sullivan Report, actual experience and reviews of services shared online is one of the key considerations for consumers of aesthetic medical services in choosing service provider and crucial in establishing confidence in the service providers' services among potential clients. Thus, our clients' satisfaction level towards our services is paramount to our business, brand image and market reputation. Yet with the unique nature of the aesthetic medical services industry, the level of clients' satisfaction with our services is personal and varies subjectively.

Clients' good reviews and feedbacks in relation to their experience with us would enable us to promote our services and attract clients without incurring extra advertising efforts. The high quality of our client experience is evidenced by the high ratings and reviews at our online shops on several leading third party platforms. For example, as at the Latest Practicable Date, on certain e-commerce online platforms, our online shops received an average review rating of 4.0 stars or above out of 5 stars. On the other hand, we may inevitably encounter clients who are not fully satisfied with our services. In this information age, any negative reviews in relation to our services given by our clients online spread quickly in the market, and may, regardless of merit, damage our brand image and reputation in the industry. We, therefore, through the implementation of our robust client feedback management system, try to maintain the market recognition of our brand and to alleviate clients' possible dissatisfaction or discomfort as much as possible. Our Directors believe that a timely response to our clients feedback can substantially improve our clients' satisfaction level of their experience with us and thus can boost repeated visits of our clients and attract new clients.



**Client Feedback Management System**

Our client service team proactively solicits client feedback and ascertains their level of satisfaction in relation to our services through various channels, including encouraging clients to fill out comment collection surveys, setting up suggestion boxes in each aesthetic medical institution and proactively assisting clients during face-to-face communication with frontline staff at our aesthetic medical institutions. In particular, it is part of our internal procedures that after the completion of each aesthetic medical procedure, our client service personnel will actively contact our clients to solicit their feedbacks, check their recovery progress and remind them of return visits and post-procedure care. Our client service team also closely monitors the feedbacks on our online shops and other media platforms in relation to our services and provides timely explanation and responses to our clients.

During the process of our active solicitation of feedback from our clients, our clients service personnel may encounter various clients' concerns and requests, including, clients who, due to various personal reasons, wish to refund all or part of the service fees before or after the service rendered and clients who are not fully satisfied on various aspects of our services, such as our staff attitude, waiting time prior to receipt of service at our aesthetic medical institutions and post-treatment discomfort. Our client service personnel would offer detailed explanation to address clients' concern and in some cases, in order to appease our clients, to maintain our service quality and to encourage repeated visits, our client service personnel may offer certain complimentary skin care products, complimentary procedures and/or to refund all or part of the service fees on case-by-case basis. As part of our after sales services, we would solicit feedback, offered complimentary gifts/procedures and/or monetary compensation and handled acceptance from such clients simultaneously and such process would generally conclude within one day. We offer our dissatisfied clients whom we actively solicited through client feedback management system complimentary gifts/procedures and/or monetary compensation on a non-admission of liability basis. All of such dissatisfied clients whom we actively solicited through our client feedback management system and appeased by offering complimentary gifts/procedures and/or monetary compensation involved dissatisfaction or discomfort of clients of a minor scale and/or trivial nature.

According to the Frost & Sullivan Report, based on a sample size of 100 aesthetic medical service providers in the PRC, including listed companies, most of which located in East China, it is a common industry practice for aesthetic medical service providers to offer complimentary gifts, complimentary procedures and refund all or part of the service fees to clients after delivery of services as a means to maintain clients' satisfaction level and boost repeated visit. Our efforts in maintaining our clients' satisfaction level were evidenced by the fact that approximately 82.6% of these clients who have received our complimentary procedures and/or refund during the Track Record Period returned to us for aesthetic medical services as at the Latest Practicable Date.

Sometimes, dissatisfied client may actively make complaint to us directly on-site through our frontline staff at our aesthetical medical institutions or our client service hotline; or actively make complaints to local governmental authorities, including local health bureau or local industry and commerce administration bureau, and are referred to us by relevant local governmental authorities. Complaints cases generally involve relatively more material dissatisfaction or discomfort of clients and/or more complex nature comparing with cases solicited through our client feedback management system and appeased by offering complimentary gifts/procedures and/or monetary compensation. These complaints are handled by our medical affairs department. For details of our clients complaints management, please refer to the paragraph headed “Clients Complaints Management” in this section.

The total number of the dissatisfied client cases we actively solicited through our client feedback management system and appeased by offering complimentary gifts/procedures and/or monetary compensation and the complaints cases handled and resolved by our medical affairs department are 593, 1,372, 2,510 and 1,419 for the three years ended 31 December 2019 and six months ended 30 June 2020, respectively, representing 0.5%, 0.6%, 0.8% and 1.3% of our total number of procedures performed for same periods, respectively.

Cases solicited through our client feedback management system as part of our after sales services and appealed by offering complimentary gifts/procedures and/or monetary compensation<sup>(1)(2)</sup>  
Complaints handled by our medical affairs department<sup>(3)</sup>

*Notes:*

- (1) Dissatisfied client cases are cases we actively solicited through our client feedback management system and appeared by offering complimentary gifts/procedures and/or monetary compensation; which do not include client complaints cases handled and resolved by our medical affairs department.
- (2) The principal reasons for the significant increase of number of clients involved in cases solicited through our client feedback management system and appeared by offering complimentary gifts/procedures and/or monetary compensation for the years ended 31 December 2018 and 2019 were (i) as part of our internal procedures for post-completion of each aesthetic medical procedures to solicit clients' feedbacks, such increase is in line with our significant increase in the number of active clients during the relevant years; and (ii) pursuant to the new business retail philosophy adopted in November 2017 to capture the massively blooming pool of target consumers, being young females who are in the habit of online purchasing, our Group had since then been making additional efforts to appease clients and maintain our good review rating on our Group's online shops. Thus, during the process of soliciting clients' post-treatment feedback, we aim to alleviate clients' dissatisfaction or discomfort as much as possible by, among others, offering certain complimentary skin care products or complimentary procedures to clients, even in the cases of slightest dissatisfaction or inevitable discomfort.
- (3) Complaints cases were cases actively made to us by clients directly or referred to us by relevant local governmental authorities and handled and resolved by our medical affairs department.
- (4) Such amount of refund paid did not include any refund of prepaid amount for our fixed-session service plans and fixed-term service plans to clients at their request. For details, please refer to the paragraph headed "Clients for Aesthetic Medical Management Consulting Services — Payment for our Aesthetic Medical Services" in this section for details.

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## BUSINESS

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During the Track Record Period, we solicited and handled a total of 5,756 cases from the dissatisfied clients, representing approximately 0.8% of our total number of procedures performed for the same period, all of which have been settled. The following table sets forth the nature of the cases from the dissatisfied clients whom we actively solicited through our client feedback management system during the Track Record Period based on our internal records:

Nature of cases	Number of dissatisfied client cases			
	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Waiting time prior to receipt of service at our aesthetic medical institutions and/or making appointment for the performance of the procedure	458	1,120	1,956	1,100
Results of the procedure having not fully met the clients' expectations	69	136	324	222
Staff attitude	26	39	42	29
Post-treatment discomfort	<u>10</u>	<u>36</u>	<u>129</u>	<u>60</u>
<b>Total</b>	<b><u>563</u></b>	<b><u>1,331</u></b>	<b><u>2,451</u></b>	<b><u>1,411</u></b>

With reference to the dissatisfied clients and complaints received historically, we included refund liabilities in our financial statement, which represented the estimated portion of service fees received which may be refunded in the future. For further details of our refund liabilities, please refer to the section headed “Financial Information — Selected Items of Consolidated Statements of Financial Position — Refund liabilities” in this prospectus.

### Quality improvement

We evaluate and analyze clients' feedbacks weekly and make necessary responses to the clients as well as improvements to our operation system. We also review weekly our previous responses made to the clients as well as improvements made to our operation system to ensure our services continue to improve and to achieve higher level of client satisfaction. Each of our aesthetic medical institution will hold a quarterly meeting to discuss major clients' feedbacks and improvement measures.

**CLIENT COMPLAINTS MANAGEMENT**

As part of our risk management and internal control procedures, we have fully informed our clients of the inherent risks and possible side effects in relation to the aesthetic medical procedures and obtained their consents before performance of the relevant procedures. However, with the unique nature of the aesthetic medical services industry, we inevitably receive client complaints in relation to our performance of aesthetic medical procedures from time to time. Based on the Frost & Sullivan Report, our Directors believe that it is common in the aesthetic medical industry to receive client complaints in relation to the performance of aesthetic medical procedures.

Our clients' complaints can generally be categorised by the following nature:

- results of the procedure:
  - client may believe that the aesthetic results of our services have not fully met their expectations;
  - when potential side effects, allergic reactions, infections or complications that may accompany any of our services occur.
- recovery time: although we have emphasized to our clients that the estimated recovery time from the relevant procedure varies from individual to individual depending on clients' physical condition and post-treatment personal care, clients may still find the recovery time being longer than expected.
- staff attitude: a client finds the service attitude of a staff member dissatisfying or below their expectations.

During the Track Record Period, our medical affairs department received and handled 138 complaints in relation to our aesthetic medical services from our clients, representing a rate of lower than 0.1% of the total number of aesthetic medical procedures performed during the same period, all of which have been settled. According to the Frost & Sullivan Report, in the PRC aesthetic medical service industry, the number of client complaints generally accounted for around 1% of the total number of aesthetic medical procedures performed.

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## BUSINESS

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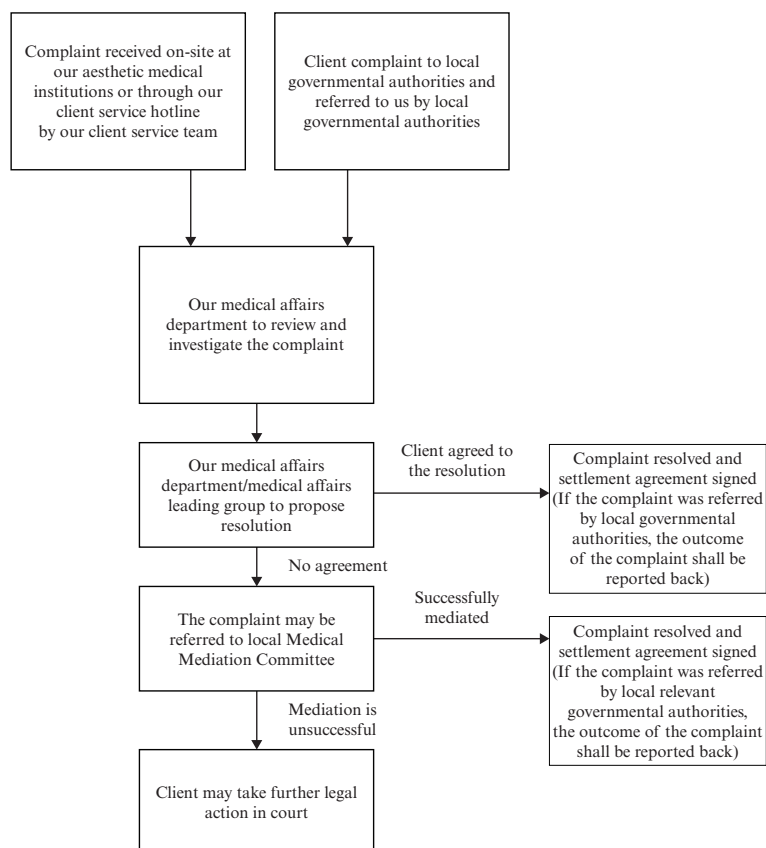
The following table sets forth the nature of the 138 complaint cases handled and resolved by our medical affairs department we received during the Track Record Period based on our internal records:

	Number of complaints			Six months ended
	Year ended 31 December 2017	2018	2019	30 June 2020
<b>Nature of complaints</b>				
Results of the procedure having not fully met the clients' expectations	24	28	41	6
Side effects, allergic reactions, infections or complications	6	8	17	2
Staff attitude	—	5	1	—
<b>Total</b>	<b><u>30</u></b>	<b><u>41</u></b>	<b><u>59</u></b>	<b><u>8</u></b>

In order to manage client complaints properly and enhance our brand image, we adopted a set of standardized complaint management measures and procedures.



The following diagram illustrates our key procedures of complaint management:



Client complaints are generally made to us (i) directly on-site through our frontline staff at our aesthetical medical institutions or our client service hotline; and (ii) complaints made to local governmental authorities, including local health bureau or local industry and commerce administration bureau, and referred to us by relevant local governmental authorities.

Our client service team will preliminarily handle the complaints made on-site through our frontline staff at our aesthetic medical institutions and through our client service hotline. Our client service personnel will retrieve the relevant medical record, understand the nature of the complaint and try to resolve and address clients' concern, after consulting with the handling physician if necessary, by providing explanation promptly to the largest extent possible. In rare circumstances where the client is not satisfactory with the explanation provide by our client service team, our client service personnel will file an official complaint for the client by completing the complaint registration form which includes particulars such as name and contact number of the complainant, date of the procedure performed, the name of the relevant handling physician and the nature of the complaint, and submit to our medical affairs department for handling.

Our medical affairs department, comprising one or two members with rich experience in managing aesthetic medical institutions in each of our aesthetic medical institutions, is responsible for handling client complaints diverted from our client service personnel and complaints referred by local governmental authorities.

Our medical affairs department will review and investigate the complaint by studying the relevant medical record and interviewing the handling physician and medical staff. If after considering a number of factors, including, the nature and complexity of the complaint, the monetary value of the complaint involved, the involvement by governmental authorities, the potential reputation impact to our Group, the medical affairs department finds any complaint to be material, guidance would be sought from the medical affairs leading group in each of our aesthetic medical institutions and/or in our headquarters. The medical affairs leading group in our headquarters includes our executive Director, Mr. Song Jianliang and our executive Director and Chief Executive Officer, Mr. Yu, the general manager of each of our aesthetic medical institutions and our Group's supervisor of medical affairs. The medical affairs department may propose resolution, involving complimentary gifts and/or services and/or refunds and/or monetary compensation, to the complainant as the case may be. If the complainant agrees to the resolution, we will enter into a settlement agreement with the complainant with the complainant acknowledging his/her agreement to the settlement proposal and waive all his/her rights in pursuing the complaints further in any manner, including through media, mediation and court litigation. For complaints referred by local governmental authorities, resolution shall be reported back to the relevant governmental authorities for record.

If no agreement can be reached between the complainant and our medical affairs department or medical affairs leading group, complainant may refer the complaint to local Medical Mediation Committee for mediation and further start action in court.

During the Track Record Period, our medical affairs department received and handled a total of 138 complaints, among which 12 was referred by local governmental authorities, including local health bureau and local industry and commerce administration bureau.

123 complaints handled by our medical affairs department during the Track Record Period were settled without further action involving local Medical Mediation Committee or court. During the Track Record Period, 12 complaint cases were finally resorted to local Medical Mediation Committee which have all been subsequently settled by refunding service fees, payment of settlement sum and/or offering complimentary procedures and resolved as at the Latest Practicable Date. During the Track Record Period, a total of three cases were finally resorted to court action (including one case referred by local Medical Mediation Committee to the court and two cases where the complainants submitted their claims directly to the court), one was resolved by court decision in favor of us, while the other two were settled out of court by refunding the entire service fees received in the amount of RMB50,000 and by refunding the service fees and payment of settlement sum in total amount of RMB200,000, respectively. There were no outstanding complaints handled by our medical affairs department as at the Latest Practicable Date.

109 of the complaints handled by our medical affairs department during the Track Record Period resulted in monetary refund and/or payment of settlement sum, while 29 complaint cases resulted in offering complimentary gifts and/or procedures. The total amounts of refunds were approximately RMB0.4 million, RMB0.4 million, RMB0.7 million and RMB0.2 million, for the three years ended 31 December 2019 and the six months ended 30 June 2020 respectively, representing approximately 0.4%, 0.2%, 0.4% and 0.3% of our total revenue for the same periods, respectively; while the total amount of settlements sum paid were approximately RMB61,000, RMB89,000, RMB100,000 and RMB176,000 for the three years ended 31 December 2019 respectively, all representing less than 0.1% of our total revenue for the same periods, respectively. For the three years ended 31 December 2019 and the six months ended 30 June 2020, we incurred costs of approximately RMB5,000, RMB8,000, RMB8,000 and nil for complimentary procedures offered to complainants, respectively.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any complaints in relation to our performance of aesthetic medical procedures that could cause a material adverse effect on our business, financial condition or results of operations. After consulting our PRC Legal Advisers in relation to the regulations of medical incidents, our Directors confirm that we were not involved in any “medical incident” as defined under the Medical Incidents Regulation during the Track Record Period and up to the Latest Practicable Date.

For further details, please refer to the section headed “Risk Factors — Risk Relating to our Business — Failure to manage our clients’ expectations may lead to complaints and legal claims by our clients” in this prospectus.

## **SALES AND MARKETING**

While we formulate the overall branding strategies at the headquarters level, we conduct sales and marketing mainly through the sales and marketing team at each of our aesthetic medical institutions. Our sales and marketing team is responsible for the collection of market data and organisation of marketing events. We design our sales and marketing programs and strategies based on market research, client feedback system, response from online platforms and internal discussion among our sales and marketing team, financial and other relevant departments.

Unlike the traditional business model that merely focuses on conducting sales through our aesthetic medical institutions, we also operate online shops on a number of e-commerce online platforms to promote our brand and market our services. For the three years ended 31 December 2019 and the six months ended 30 June 2020, RMB7.0 million, RMB23.3 million, RMB33.4 million and RMB10.5 million, representing 6.2%, 14.6%, 17.5% and 17.9%, respectively of our total revenue were contributed from our online shops.

Following our target clients’ social and purchasing pattern, we sell our services through online channels to allow them to browse our services offered and make purchases “24/7”. Our online shops can provide convenience to our clients by offering instant purchases, enhance potential clients’ awareness of our brands and attract and direct online clients traffic to our aesthetic medical institutions. In addition, we arrange regular online

promotional events, such as Double 11 Day, Double 12 Day, and other promotion events with specific theme, such as discount for all hydrating services or whitening services through our online shops as a result of which the promotion effect of events is greatly expanded comparing to the traditional methods. Further, our clients can contact our online sales personnel to make consultation appointment and resolve their general enquiries to our services offered. With the unique nature of our industry, clients' actual experiences and reviews of our services are exceptionally important in promoting our services to future clients and establishing confidence in our services among future clients. One of the key features of these online platforms is that clients can share their good reviews and feedbacks they have experienced with us. This enables us to promote our services and acquire clients without incurring extra advertising efforts.

The salient terms included in the agreements between the online platforms service providers and us as at the Latest Practicable Date are set out below:

<b>Contract period:</b>	Generally one year
<b>Service scope:</b>	The online platforms service providers shall provide access and connection to set up and maintain our online shops and the relevant payment channel. Depending on our marketing strategy for particular online platform, service scope may include additional customised services such as customised webpage design for our online shop, customised banner advertisement and browsing volume analysis.
<b>Service fees:</b>	The service fees we shall pay to individual online platforms service providers varied significantly, from RMB10,000 to RMB150,000 per year, which depends mainly on the number of online platforms and the additional customised services. Certain online platforms service providers also require us to pay a deposit in the range of RMB30,000 to RMB300,000 depending on the service fees. Such deposit shall be refunded to us upon the earlier of the expiration of the term or termination of the relevant agreement, subject to any deduction, being damages or losses arising from our breach of contract, such as non-compliance with their online merchant code of conduct when operating our online shops.
<b>Termination:</b>	Generally, both parties are entitled to terminate the agreement with one-month written notice.

In addition, we promote our brand and services through traditional media channels, such as billboards. For example, we place outdoor advertisements on billboards at bus stops and inside the elevators of buildings in the cities where our aesthetic medical institutions are located. We also hold various themed promotional events such as special discount given for specific types of procedure during each year to reward our existing clients and attract new clients. During the Track Record Period, we did not engage any third-party sales agent to conduct sales and marketing of our services.

Medical advertising is strictly regulated in the PRC. Certain medical advertisements shall be reviewed by relevant healthcare authorities and a “medical advertisement review certificate” is required before they may be released by a medical institution. The certificate has an effective term of one year subject to renewal. For details related to the regulation of medical advertising, please refer to the section headed “Regulatory Overview” in this prospectus. Save as disclosed in the paragraph headed “Non-compliances Incidents” in this section, we were in compliance with applicable laws and regulations in relation to medical advertising in all material respects during the Track Record Period and up to the Latest Practicable Date.

To govern the sales and marketing activities of our frontline staff, we have implemented the following internal control measures:

- The price of the service in the marketing activities should be based on a price list submitted to the headquarters and approved by the heads of the various medical and beauty agencies.
- The discount provided to the client can only be approved by the head of sales and marketing team and general manager of each aesthetic medical institution.
- Sales and marketing activities shall be submitted to the general manager of each aesthetic medical institution for approval. It should be clear that the services and products provided to clients should come from the service and product catalog approved by the head of sales and marketing team to ensure compliance with the relevant PRC authorities.
- According to the plan of the relevant sales and marketing activities, designated sales and marketing team members are responsible for collecting the materials and gifts from the warehouse, and handing them over to the frontline staff for custody and distribution.
- The client’s payment process should be handled by a cashier and not frontline staff.
- At the end of the activity, the remaining gifts and registration forms shall be recycled and checked back in to the warehouse.

## **PRICING POLICY**

Pursuant to the applicable PRC laws and regulations, a private for-profit medical institution is generally entitled to set the prices of its services at its own discretion. We price our aesthetic medical services based on certain factors, including market conditions, positioning of our aesthetic medical institutions, complexity of the procedure, brands and types of implants, injection materials or other consumables used for the procedure, if any, the seniority of physicians involved, local market conditions and competitors' pricing of similar services. Depending on the market conditions and changes in the pricing strategies of our competitors, we may from time to time offer discounts to our clients as part of our marketing efforts.

None of our aesthetic medical institutions is a “medical insurance designated medical institution” (醫保定點醫療機構) and therefore our service fees are not subject to the pricing guidelines for reimbursement set by the relevant local healthcare insurance authorities in the PRC.

We generally charge our client of our aesthetic medical management consulting services a fixed service fees and/or, in some cases, performance bonus. For our aesthetic medical management consulting services, we price our services based on a number of factors which include the scope of services, the size of the designated consultant team required, the scale and geographical location of our clients, market conditions and years of business of relationship. As a result, our service fees charged for our aesthetic medical management consulting services vary significantly from client to client. For further details of our aesthetic medical management consulting services, please refer to the paragraph headed “Aesthetic Medical Management Consulting Services” in this section.

## **SUPPLIERS AND PROCUREMENT**

### **Our Suppliers**

During the Track Record Period, the supplies required in our operations primarily include implants, injection materials, pharmaceuticals and other medical consumables, and our five largest suppliers include suppliers of injection materials, implants and medical consumables. We have had relationship with our five largest suppliers for one to seven years as at the Latest Practicable Date.



## BUSINESS

The table below sets out the profile of our five largest suppliers for the year ended 31 December 2017:

Rank	Name of supplier	Type of goods supplied to us	Background of supplier	Approximate years of business relationship with us as at 30 June 2020	Typical credit terms	Approximate amount of purchases (RMB'000)	Approximate percentage of our total purchases
1	Supplier A	Injectable dermal fillers, Botulinum toxin type A	A private company established in Ningbo City, Zhejiang Province which principally engaged in provision of medical products	7	payment in advance	5,193	25.2%
2	Zhejiang Int'l Medicine Co., Ltd. (浙江英特藥業有限公司)	Botulinum toxin type A	A subsidiary established in Hangzhou City, Zhejiang Province of a company listed on Shenzhen Stock Exchange and is principally engaged in provision of biological and medical products. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB24.6 billion and RMB151.1 million, respectively, according to its parent company's annual report	7	30 days	2,980	14.5%
3	Supplier B	Injectable dermal fillers	A private company established in Hangzhou City, Zhejiang Province which principally engaged in provision of medical products	5	90 days	2,133	10.4%
4	Supplier C	Injectable dermal fillers	A private company established in Shanghai City which principally engaged in provision of medical products	6	payment in advance	964	4.7%
5	Supplier D	Implants	A private company established in Hangzhou City, Zhejiang Province which principally engaged in provision of medical products	5	30 days	831	4.0%
						12,101	58.8%

The table below sets out the profile of our five largest suppliers for the year ended 31 December 2018:

Rank	Name of supplier	Type of goods supplied to us	Background of supplier	Approximate years of business relationship with us as at 30 June 2020	Typical credit terms	Approximate amount of purchases (RMB'000)	Approximate percentage of our total purchases
1	Supplier A	Injectable dermal fillers, Botulinum toxin type A	A private company established in Ningbo City, Zhejiang Province which principally engaged in provision of medical products	7	payment in advance	7,852	16.4%
2	Huadong Medicine (Hangzhou) Biological Product Co., Ltd. (華東醫藥(杭州)生物製品有限公司)	Botulinum toxin type A	A subsidiary established in Hangzhou City, Zhejiang Province of a company listed on Shenzhen Stock Exchange and is which principally engaged in provision of biological and medical products. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB35.4 billion and RMB2.8 billion, respectively, according to its parent company's annual report	3	payment in advance	6,589	13.8%
3	Zhejiang Int'l Medicine Co., Ltd. (浙江英特藥業有限公司)	Botulinum toxin type A	A subsidiary established in Hangzhou City, Zhejiang Province of a company listed on Shenzhen Stock Exchange and is principally engaged in provision of biological and medical products. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB24.6 billion and RMB151.1 million, respectively, according to its parent company's annual report	7	30 days/90 days	5,984	12.5%
4	Supplier B	Injectable dermal fillers	A private company established in Hangzhou City, Zhejiang Province which principally engaged in provision of medical products	5	90 days	4,178	8.7%
5	Supplier E	Medical consumables	A private company established in Shanghai City which principally engaged in provision of medical consumables	2	30 days	1,608	3.4%
						26,211	54.8%

## BUSINESS

The table below sets out the profile of our five largest suppliers for the year ended 31 December 2019:

Rank	Name of supplier	Type of goods supplied to us	Background of supplier	Approximate years of business relationship with us as at 30 June 2020	Typical credit terms	Approximate amount of purchases (RMB'000)	Approximate percentage of our total purchases
1	Zhejiang Int'l Medicine Co., Ltd. (浙江英特藥 業有限公司)	Botulinum toxin type A	A subsidiary established in Hangzhou City, Zhejiang Province of a company listed on Shenzhen Stock Exchange and is principally engaged in provision of biological and medical products. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB24.6 billion and RMB151.1 million, respectively, according to its parent company's annual report	7	90 days	7,668	15.6%
2	Huadong Medicine (Hangzhou) Biological Product Co., Ltd. (華東醫 藥(杭州)生物製品 有限公司)	Botulinum toxin type A	A subsidiary established in Hangzhou City, Zhejiang Province of a company listed on Shenzhen Stock Exchange and is which principally engaged in provision of biological and medical products. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB35.4 billion and RMB2.8 billion, respectively, according to its parent company's annual report	3	payment in advance	7,495	15.3%
3	Supplier A	Injectable dermal fillers, Botulinum toxin type A	A private company established in Ningbo City, Zhejiang Province which principally engaged in provision of medical products	7	payment in advance/ 30 days	6,732	13.7%
4	Supplier F	Medical consumables	A private company established in Shanghai City which principally engaged in provision of medical consumables	1	payment in advance	1,782	3.6%
5	Supplier G	Injectable dermal fillers	A private company established in Beijing City which principally engaged in provision of medical products	4	payment in advance	1,766	3.6%
						<u>25,443</u>	<u>51.8%</u>

## BUSINESS

The table below sets out the profile of our five largest suppliers for the six months ended 30 June 2020:

Rank	Name of supplier	Type of goods supplied to us	Background of supplier	Approximate years of business relationship with us as at 30 June 2020	Typical credit terms	Approximate amount of purchases (RMB'000)	Approximate percentage of our total purchases
1	Huadong Medicine (Hangzhou) Biological Product Co., Ltd. (華東醫藥(杭州)生物製品有限公司)	Botulinum toxin type A	A subsidiary established in Hangzhou City, Zhejiang Province of a company listed on Shenzhen Stock Exchange and is which principally engaged in provision of biological and medical products. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB35.4 billion and RMB2.8 billion, respectively, according to its parent company's annual report	3	30 days	3,403	18.4%
2	Supplier A	Injectable dermal fillers, Botulinum toxin type A	A private company established in Ningbo City, Zhejiang Province which principally engaged in provision of medical products	7	30 days	2,819	15.3%
3	Zhejiang Int'l Medicine Co., Ltd. (浙江英特藥業有限責任公司)	Botulinum toxin type A	A subsidiary established in Hangzhou City, Zhejiang Province of a company listed on Shenzhen Stock Exchange and is principally engaged in provision of biological and medical products. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB24.6 billion and RMB151.1 million, respectively, according to its parent company's annual report	7	payment in advance	2,636	14.3%
4	Supplier G	Injectable dermal fillers	A private company established in Beijing City which principally engaged in provision of medical products	4	payment in advance	1,270	6.9%
5	Supplier H	Botulinum toxin type A, injectable dermal fillers	A subsidiary established in Hefei City, Anhui Province of a company listed on the Stock Exchange and is principally engaged in distribution of pharmaceutical products and chemical reagents in the PRC. Its parent listed group revenue and profit for the year ended 31 December 2019 amounted to approximately RMB425.3 billion and RMB10.6 billion, respectively, according to its parent company's annual report	4	payment in advance	542	2.9%
						10,670	57.8%

For the three years ended 31 December 2019 and the six months ended 30 June 2020, purchases from our five largest suppliers collectively accounted for approximately 58.8%, 54.8%, 51.8% and 57.8% of our total purchases during the same periods, respectively, and purchases from our largest supplier accounted for approximately 25.2%, 16.4%, 15.6% and 18.4% of our total purchases during the same periods, respectively. To the best knowledge of our Directors, all our top five suppliers are Independent Third Parties. None of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period. None of our five largest suppliers was also our client during the Track Record Period.

### **Procurement Process**

To strengthen the standardized management of procurement, reduce procurement costs, and improve the quality and economic benefits of procurement, we adopt a procurement management system on our procurement of medical supplies, drugs and equipment, which primarily include implants, injection materials, pharmaceuticals, skincare products, other medical consumables and aesthetic medical service equipment. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our cost of supplies consumed amounted to RMB19.4 million, RMB34.3 million, RMB47.3 million and RMB19.2 million, respectively, representing 50.5%, 51.6%, 52.5% and 55.8% of our total cost of sales for the same years, respectively.

Key points of our procurement management system are summarized as follows:

- The system applies to medical supplies, non-medical supplies and aesthetic medical service equipment. Medical supplies include prostheses and injection materials, medical materials, pharmaceuticals, medical cosmetics, and auxiliary materials. Non-medical supplies include daily necessities, office supplies, food, gifts, low-value consumables and others.
- All requests for supplies are initiated by each department. For medical supplies, the requests are made to the head of each aesthetic medical institution through pharmacy. For aesthetic medical service equipment, the centralized bargaining on the terms of supplier agreement is required. The approval of the general manager of each aesthetic medical institution needs to be obtained before the procurement department orders such requests. All requests shall be according to our monthly procurement plan set by each department and approved by the general manager.
- For any procurement, quotations from two or three suppliers (except for BOTOX<sup>®</sup>) are required. For BOTOX<sup>®</sup>, we source from its only available supplier in Zhejiang Province of the PRC. Our procurement team will conduct comprehensive evaluation on the quality, price, billing period, delivery time, return conditions, after-sales service, supplier's certificates, etc., of the suppliers, and negotiation of the final price with the suppliers, which shall be ultimately approved by the general manager.
- In general, all procurement projects involve procurement contracts or transaction orders, delivery notes and purchase invoices.

Besides aesthetic medical service equipment, depends on the type of supplies, we sometimes would make procurement on a group basis in order to obtain more favourable pricing, such as certain supplies which have a high unit price (such as prosthesis) or a minimum purchase requirement. For some one-time use only supplies, like needles and injectors, each of our medical institutions enters into supply agreement with our suppliers.

We select our suppliers based on stringent criteria and applicable laws and regulations to ensure the quality of our supplies. When selecting suppliers, we consider, among other things, their product quality, product offerings, pricing, reputation, service quality and delivery schedule. Our suppliers are required to possess all licenses and permits necessary to conduct their operations, including Certificate of Good Manufacturing Practices for Pharmaceutical Products (藥品GMP證書) and/or Good Supply Practice certifications (藥品經營質量管理規範認證證書). Only those suppliers which fulfill all our selection criteria are selected. Our procurement management team maintains an approved suppliers list and we only source from these suppliers.

Depending on the types of supplies and our relationships with the suppliers, the terms of the supply agreements with our suppliers vary from supplier to supplier. We generally do not have long-term agreements with our suppliers. We are given credit terms ranging from one to two months by certain suppliers, while some suppliers require us to make partial or full prepayments before delivery. We normally pay our suppliers via bank transfer. Our suppliers are generally responsible for arranging the delivery of supplies to our respective aesthetic medical institutions at their own costs. We are entitled to return any supplies that do not meet our standards upon inspection after delivery. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant return of supplies that did not meet our standards and had not suffered any significant loss or damage caused by quality problems with the supplies. For large-sized aesthetic medical service equipment, the suppliers usually provide warranty period of one year and maintenance and technical support services (subject to additional charges) throughout the lives of such equipment.

All of our suppliers are located in the PRC. We procure certain supplies that are manufactured by foreign manufacturers through their licensed distributors in the PRC to ensure the quality and legality of the source of supply. We settle all such transactions in RMB.

For most of our medical supplies, we can choose from a number of suppliers, except that we source BOTOX<sup>®</sup>, the only imported brand of botulinum toxin type A in the PRC, from its only available supplier in Zhejiang Province. Please see “Risk Factors — Risks Relating to Our Business — There is no long term agreement between our Group and our suppliers”. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant shortage of or delay in the delivery of supplies. We maintained stable business relationships with our suppliers during the Track Record Period.

During the Track Record Period, we had not experienced any significant fluctuation in the prices of our supplies. For the sensitivity analysis and breakeven analysis of the cost of supplies and consumables, please refer to the subsection headed “Financial Information — Key Factors Affecting our Results of Operations — Ability to control our costs and expenses” for further discussion.

**SUPPLIES**

Our supplies typically include different types of implanted prostheses and injection materials, medical materials, pharmaceuticals and other medical consumables.

We generally maintain 7 to 30 days of supply to meet the needs of our aesthetic medical institutions. We review our supplies on hand on a monthly basis. We carry out regular physical supply counts to verify the accuracy of our supply records and we closely monitor supply expiry dates to ensure no expired items will be used. Once the supplies are expired, or the aesthetic medical equipment has reached the end of their service lives, we will safely dispose them in accordance with applicable laws and regulations, and such supplies will be written off accordingly. During the Track Record Period, we did not experience any significant write-offs of our supplies.

**IMPACT OF OUTBREAK OF COVID-19 ON OUR OPERATION IN THE PRC****Background**

There has been an outbreak of the novel coronavirus, COVID-19, in 2020. Such outbreak of epidemic has endangered the health of many people around the world and significantly disrupted travel and economy. In order to combat the COVID-19 outbreak, PRC governmental authorities have imposed various controls and restrictions, which include extension of the Chinese New Year holiday in February 2020 and temporary suspension of work in various provinces and cities including Zhejiang Province and Anhui Province. According to the Notice on Delay Enterprise Resumption of Work and School Start Time (《關於延遲企業復工和學校開學的通知》) issued by the General Office of People's Government of Zhejiang Province on 27 January 2020 and the Notice on Delay Enterprise Resumption of Work and School Start Time (《關於延遲企業復工和學校開學的通知》) issued by the General Office of People's Government of Anhui Province on 29 January 2020, businesses in Zhejiang Province and Anhui Province were ordered to remain closed after the Chinese New Year holiday.

Our aesthetic medical institutions are located in Hangzhou City and Ruian City in Zhejiang Province and Wuhu City in Anhui Province, which are areas affected by the outbreak of COVID-19. In compliance with relevant public announcements and notices issued by governmental authorities to contain the outbreak of COVID-19, we had temporarily suspended all services of our aesthetic medical institutions since 1 February 2020 and with the permission of relevant governmental authorities, the operation of Hangzhou Raily, Ruian Raily, Raily Tiange and Wuhu Raily, have been partially resumed on 3 March 2020, 5 March 2020, 1 March 2020 and 21 March 2020, respectively. To facilitate societal prevention and control of COVID-19 and implementation of our pandemic preventive measures so as to minimize the risk of infection by our clients and staff; and considering the anticipated reduced client flow, we resumed our operation in phases by allowing staff to resume duties at our aesthetic medical institutions in batches at different times since their respective date of partial resumption. Each batch would contain sufficient staff at different roles to maintain normal operation of all types of our aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services so as to gradually resume the full scale operation of our aesthetic medical institutions. All



types of aesthetic medical services in all our aesthetic medical institutions and the operation of our aesthetic medical management consulting services business have been fully resumed since 10 April 2020. Since then and until the Latest Practicable Date, we have not received any correspondences or notices from any governmental authorities nor our Directors are aware of any laws, regulations, announcement or notices being issued by any governmental authorities imposing any controls or restrictions in relation to the outbreak COVID-19 that may materially affect the operation of our Group.

The impact and potential impact of COVID-19 on our Group's operations in the PRC as discussed here and below is prepared according to the best estimate and belief of our Directors, based on latest information currently available to our Directors as at the Latest Practicable Date, subject to development of the outbreak of COVID-19 in the PRC. For details of the relevant risk, please refer to the section headed "Risk Factors — Risk Relating to our Business — The recent outbreak of the contagious COVID-19 may have a material adverse effect on our business, results of operation, financial condition and prospects" in this prospectus.

### **Employees**

As at the Latest Practicable Date, we were not aware of any employees or any contract physicians who were unavailable to attend to duties due to quarantine restriction of COVID-19 or related transportation issue or travel restrictions. We paid partial wages to our employees during the temporary suspension of our operation and contributing reduced amount of social insurance for our employees to the extent permissible by relevant governmental policy. For the six months ended 30 June 2020, we saved staff costs and employee social insurance contribution in the approximate sum of RMB4.6 million.

### **Supplies and Supply Chain**

Our supplies typically include different types of implants and injection materials, pharmaceuticals and other medical consumables which generally have a shelf life of two to five years. We generally maintain 7 to 30 days of supply to meet the needs of our aesthetic medical institutions. During the Track Record Period, our average supplies turnover days were 36.0 days, 28.2 days, 28.3 days and 38.1 days, respectively. Considering that (i) all our top five suppliers for the six months ended 30 June 2020 (including the only available supplier in Zhejiang Province) have resumed operation as at the Latest Practicable Date; (ii) we can choose from a number of suppliers for most of our medical supplies; (iii) the level of inventories of our Group's major supplies as at the Latest Practicable Date; and (iv) the resumption of local logistics; our Directors did not expect our Group to experience any significant shortage of or delay in the delivery of supplies in the second half of 2020 which may materially affect our operation. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant shortage of supplies which materially adversely affect our operation.

**Impact on our Client Flow and our Group's Business**

As a gesture of goodwill in times of pandemic and good client management, we offered to extend the validity of the service period of our fixed-term service plan for laser hair removal for one month. Similarly as a gesture of goodwill to our clients of aesthetic medical consulting services, we have waived parts of their service fees for their respective business suspension period due to the outbreak of COVID-19, in the aggregate sum of approximately RMB252,000 for the six months ended 30 June 2020. As at the Latest Practicable Date, we did not encounter any claims or complaints from our clients arising from the temporary suspension of our operation.

Due to such temporary suspension of operation, our Group's aesthetic medical service business had plummeted in the first quarter of 2020 where we recorded nil revenue for the month of February 2020. With the partial resumption of operation of our aesthetic medical institutions since March 2020, the number of active clients visiting our aesthetic medical institutions and the number of aesthetic medical procedures performed started to recover in the second quarter of 2020, with an increase of approximately 102.4% and 64.2%, respectively, comparing with the first quarter of 2020. With the gradual containment of COVID-19 in the PRC and the corresponding recovery of the general economic environment in the PRC, the number of active clients visiting our aesthetic medical institutions as well as the number of aesthetic medical procedures performed have further improved in the third quarter of 2020, with an increase of approximately 8.1% and 61.4%, respectively, comparing with the second quarter of 2020. Based on our internal record, our number of active clients for the third quarter of 2020 reached approximately 24,000, being approximately 10.7% more than the number of active clients for the corresponding period in 2019; while our number of procedures performed for the third quarter of 2020 reached approximately 103,000, being approximately 11.0% more than the number of procedures performed for the corresponding period in 2019. However, despite our rapid recovery of business and client flow following the gradual containment of the outbreak of COVID-19 in 2020 and our improved performance in the third quarter of 2020 abovementioned, our revenue and gross profit for the ten months ended 31 October 2020 decreased by approximately 19.2% and 26.6%, respectively; while our net profit decreased by approximately 104% to a net loss position, comparing with the corresponding period in 2019, based on the unaudited consolidated management accounts of our Company. As non-IFRS measures, our adjusted profit for the ten months ended 31 October 2020 decreased by 34.0% as compared to the corresponding period in 2019, based on the unaudited consolidated management accounts of our Company. Our Directors further expect that the financial performance for the year ending 31 December 2020 will be in decline comparing with that for the year ended 31 December 2019 mainly due to the impact of the outbreak of COVID-19. For details on the profit forecast for the year ending 31 December 2020, please refer to the section headed "Financial Information — Profit Forecast for the year ending 31 December 2020" in this prospectus.

Under the general adverse impact of COVID-19 on consumers' spending sentiment in aesthetic medical services, our Group has experienced a particularly drastic decrease in revenue contribution from aesthetic surgery services among our aesthetic medical services. Aesthetic surgery services, comparing with aesthetic dermatology services and minimally-invasive aesthetic services, generally require relatively longer treatment time, recovery time and more frequent visits to our aesthetic medical institutions, thereby having heightened consumers' perception of increased exposure and risks of infection, among our aesthetic medical services. Based on the unaudited consolidated management accounts of our Company for the ten months ended 31 October 2020, our revenue generated from aesthetic surgery services significantly decreased by approximately 46.6%; while our revenue generated from minimally-invasive aesthetic services and aesthetic dermatology services in aggregate only decreased by approximately 1.0%, comparing with the same period in 2019. Despite the improving number of active clients visiting our aesthetic medical institutions and the number of aesthetic medical procedures performed since the second quarter of 2020, the decreasing proportion of revenue generated from aesthetic surgery services with relatively higher gross profit margin resulted in a decrease in the overall gross profit margin of our aesthetic medical services, and thus a lower profit level for our Group for the relevant period.

Our Directors are of the view that the outbreak of COVID-19 shall only have a temporary impact on our Group, considering that (i) save for one confirmed case found in Anhui Province on 10 November 2020, Zhejiang Province and Anhui Province have not recorded any new local confirmed COVID-19 cases since 16 June 2020 and 28 February 2020, respectively, up to the Latest Practicable Date; (ii) our number of active clients for the nine months ended 30 September 2020 reached approximately 51,000, being approximately 95.5% of the number of active clients for the corresponding period in 2019; (iii) our number of procedures performed for the nine months ended 30 September 2020 have even slightly increased by approximately 1.4% to approximately 220,000 comparing with the corresponding period in 2019; and (iv) other information currently available to our Directors. As such, our Directors believe that our client flow and business would gradually resume to a level before the outbreak of COVID-19.

After considering (i) our financial resources presently available to us; (ii) the historical monthly cash outflow for our operation; and (iii) other latest information currently available to our Directors, our Directors are of the view that we have sufficient working capital to maintain our present operation.

In the worst case scenario where all of our operations were suspended from 1 November 2020 onwards due to the outbreak of COVID-19, to the best estimate of our Directors, the monthly cash outflow in such situation would be approximately RMB1.5 million per month. Our key assumptions of the worst case scenario where our operation are forced to be suspended for a prolonged period due to the impact of COVID-19 include: (i) we will not generate any income due to the suspension of operation; (ii) rental related payments including rental fees and other miscellaneous charges are fully paid monthly; (iii) minimal operating and administrative expenses will be incurred to maintain our operations at a minimum level; (iv) we will refund all of the services fees received in advance (including the service fees received pursuant to our service plans offered); (v) our estimates of

settlement of trade receivables and trade payables as at 31 October 2020 based on historical settlement pattern; (vi) our expansion plan is delayed under such condition; (vii) there will be no further internal or external financing from Shareholders or financial institutions; and (viii) no further dividend will be declared and paid under such situation. Based on the working capital available for our Group as at 31 October 2020 together with part of the net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses, and assuming an Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative Offer Price Range, and that the Over-allotment Option is not exercised) intended for working capital and other general corporate purposes, in the approximate sum of HK\$5.6 million (equivalent to approximately RMB4.7 million), our Directors believe that such sum will be able to support the monthly cash demand for approximately 24 months.

The abovementioned extreme situation may or may not occur. The abovementioned analysis is for illustrative purpose only and our Directors currently assessed that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development; therefore there is a possibility that such impact to our Group may be out of our Directors' control and beyond our estimation and assessment. If the outbreak of COVID-19 in the PRC resurges and/or deteriorates, negative impact may be caused to our business, results of operation, financial performance and future prospects.

Our Directors will continue to assess the impact of the COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the pandemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary.

#### **Precautionary Measures and Contingency Plan in Response to COVID-19**

Beside resumption of operation by phases as more specifically described above, in compliance with relevant public announcements and notices issued by PRC governmental authorities to continue containing the outbreak of COVID-19, we adopted various additional precautionary measures to maintain a safe and hygienic environment of our aesthetic medical institutions which include the following:

- we require all of our staff to complete additional sanitary training we provide through instant messaging application prior to their respective resumption of duties, which aim to strengthen their awareness and understanding of the preventive measures implemented in our aesthetic medical hospitals against COVID-19. We also provide special training to our cleaning staff prior to the resumption of operation of each of our aesthetic medical institutions to ensure proper sanitation would be carried out on our premises;

- access control measures were adopted for all our aesthetic medical institutions, including (i) setting up monitoring station at the entrance for each aesthetic medical institution to prohibit entrance of individuals who does not wear mask and/or display any symptoms of COVID-19; (ii) conducting mandatory body temperature check upon entry; and (iii) mandatorily requiring all entrants to fill out health declaration form which contain information regarding their travel history and symptoms of COVID-19;
- we apply different levels of protective requirement for different operation areas. For example, we require our staff to wear face mask in the reception area, while our staff to wear medical protective suits and goggles in operation rooms and dental services rooms;
- we established some quarantine rooms which enable us to quarantine those clients we may find symptoms of COVID-19 during their visit;
- we adopted additional sanitary procedures, including ventilating the indoor area properly, extending the length of disinfection by ultraviolet light, cleaning and disinfecting work and office areas with disinfectant at least twice daily; and
- we set up centralized drop points in our aesthetic medical institution for disposing of used face masks.

In order to implement the above additional precautionary measures, our Directors expect to purchase additional hygienic and sanitising materials, such as surgical masks, medical protective suits, goggles and disinfectants. With the best estimates and belief of our Directors and based on the latest information currently available to our Directors, it is expected that we may incur additional costs by approximately RMB20,000 per month to purchase such additional hygienic and sanitising materials. As at Latest Practicable Date, we had hygienic and sanitising materials (including surgical masks) in stock that would be sufficient for our usage for approximately one month and we would continue to use our best endeavour to acquire more hygienic and sanitising materials (including surgical masks) to maintain our stock level sufficient for our operation.

In order to mitigate the impact of the outbreak of COVID-19 and resume our clients' demands for our services, we adopted the following measures:

- controlling our staff cost by paying partial wages to our employees during our suspension of operation and contributing reduced amount of social insurance for our employees to the extent permissible by relevant governmental policy. For the six months ended 30 June 2020, we saved staff costs and employee social insurance contribution in the approximate sum of RMB4.6 million;
- liaising with the relevant landlords to waive certain rental fee of our leased properties during the relevant period. For the six months ended 30 June 2020, the relevant landlords waived rental fee in the approximate sum of RMB1.8 million;

- applying for government subsidy offered to employers as financial relief for COVID-19 with an aim to encourage employees retention. For the six months ended 30 June 2020, we have obtained such relevant government subsidy in the amount of approximately RMB0.3 million;
- enhancing our online marketing to re-attract our clients by maintaining effective communication with our clients through our client service team and organizing promotional campaigns. For the six months ended 30 June 2020, our online advertising expenses amounted to approximately RMB5.3 million, representing approximately 76.2% of our total promotion and marketing expenses for the same period, which increased by 7.7 percentage points from 68.5% for the corresponding period in 2019; and
- adopting additional precautionary measures mentioned above in order to gain clients' confidence in our hygienic environment in our aesthetic medical institutions.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

The 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 of our Board.

### **Quality Control**

To ensure the safety and quality of our aesthetic medical services, we have established a comprehensive quality control system in our aesthetic medical institutions, comprising primarily:

- the implementation of standardized clinical quality control procedures across all of our aesthetic medical institutions, comprising primarily guidelines relating to the performance of our aesthetic medical procedures. In particular, our quality control procedures include the 18 core systems promulgated by the NHFPC to ensure healthcare quality, which include proper procedures for initial diagnosis, ward inspection, consultation, discussions of incidents that involve safety to our clients, medical record keeping, pre-operation discussions and shift relief system;
- the adoption of standardized operational procedures across all of our aesthetic medical institutions for client services and for handling client complaints and other feedback;



- the implementation of procurement management system on our procurement of medical and non-medical supplies. In addition, centralized bargaining on terms and conditions of procurement of our aesthetic medical service equipment are required; and
- recruitment and retaining of qualified physicians and medical staff. In recruiting physicians and medical staff, we assess, among others, their academic and professional qualifications, years of relevant experience, as well as their integrity. We conduct review of the performance of our physicians and medical staff at least once a year. Our physicians are properly trained and licensed in the performance of the relevant procedures, and are also knowledgeable in advising our clients as to the necessary combination of procedures to achieve the desired aesthetic results. We closely monitor the qualification registration and licensing records on a continuing basis to ensure that all our physicians comply with all applicable requirements under the PRC laws and regulations.

### **Client and Staff Safety**

The safety of our clients and staff is of utmost importance to our operations. We have implemented operational safety guidelines for performing treatment procedures and the use of treatment equipment covering aspects including obtaining client consent, equipment requirements (such as safety goggles), emergency response protocols and the prevention of disease. In addition, we have adopted a set of stringent security protocols and fire and explosive protection procedures in case of emergency.

### **Client Information Security**

Our client information security management mainly ensures the safe storage and usage of client information, including personal information and medical records. We use our information technology system to manage our clients' information, and access to such system is subject to security level control and authorization. We also have adopted the policy for photocopying of the medical records of our clients. During the Track Record Period and up to the Latest Practicable Date, we did not experience any breach of client confidential information or any other client information related incidents which could cause a material adverse effect on our business, financial condition or results of operations.

### **Settlement and Cash Management**

Most of our client settled our aesthetic medical services fee by third-party payment platform and POS system during the Track Record Period.

We have implemented the following procedures in respect of settlement and cash management:

- we established stringent cash management system. We established cash inventory limit. Once the cash inventory limit has been approved, it must be strictly observed. Cash that exceeds the inventory limit must be deposited with the bank immediately. If a payment of a large amount of cash is necessary, approval must be obtained in advance, and the cash payment will be completed on the day of

withdrawal. Our finance department establishes an electronic “cash journal”, which is entered into the cash bank journal account editing module by the cashier on a daily basis to generate a “cash journal”. The “cash journal” balance at the end of the month should be checked against the “inventory cash” to match the accounts;

- the auditor shall conduct spot checks and verifications on the cash on a regular or irregular basis to ensure that the cash accounts are consistent and the accounts are consistent; and
- If the payment required by each branch exceeds the cash use limit prescribed by the hospital, it shall be settled by bank transfer. When applying for funds, all units must provide the name of the other party, the bank of deposit, the account number, the tax registration number, and the purpose and amount of the payment. The finance department can only make payment after the procedures for the verification of the various levels are performed according to the procedures.

### **Anti-corruption Risk Management**

The PRC government has recently enhanced its anti-bribery efforts to prevent improper payments and other benefits received by physicians, staff and hospital administrators in connection with the procurement of pharmaceuticals, medical consumables and medical equipment and the provision of healthcare services. For details of the relevant PRC laws and regulations in relation to anti-corruption and anti-commercial bribery, please refer to the section headed “Regulatory Overview — Policy Regarding Anti-corruption and Anti-commercial Bribery” in this prospectus. We have implemented the following policies and procedures to address potential bribery and corruption incidents:

- the audit department at our headquarters is responsible for design and implementation of our anti-bribery and corruption policies and procedures. Related policies are set forth in our employee handbook and code of conduct. We provide anti-bribery and corruption trainings to our senior management and employees;
- we have a zero-tolerance policy towards acceptance of any bribes by our physicians and medical staff. We have established a whistle blower program, including a dedicated hotline and an email address, to receive reports of corruption charges, with the option of anonymity. Any employee found in breach of our anti-bribery and corruption policies and procedures will be dismissed; and
- with respect to procurement, we have centralized the procurement of medical supplies at the headquarters level, thereby minimizing the risk of corruption or abuse.

Our Directors are of the view that our Group has complied with all applicable laws and regulations regarding the anti-corruption and anti-commercial bribery during the Track Record Period and up to the Latest Practicable Date in all material respects.

**COMPETITION**

The aesthetic medical service industry in China has experienced rapid growth and expected to continue to grow tremendously during the next five years. Please refer to the section headed “Industry Overview” in this prospectus for a more detailed discussion.

According to the Frost & Sullivan Report, the aesthetic medical service industry in China is highly competitive and fragmented with a large number of market participants. Market participants comprise public and private aesthetic medical institutions, including general hospitals with aesthetic medical departments, aesthetic medical specialty hospitals, out-patient departments and clinics. According to the Frost & Sullivan Report, the total revenue of the PRC aesthetic medical service market has grown from RMB63.8 billion in 2015 to RMB143.6 billion in 2019, representing a CAGR at 22.5%, and is expected to grow further at a CAGR of 17.3% from 2019 to 2024, reaching RMB318.5 billion in 2024.

According to the Frost & Sullivan Report, the key competitive factors in the aesthetic medical service market in the PRC include quality of service provided and appropriate promotion which can increase the exposure of aesthetic medical institution to target consumer group and it is also expected that the aesthetic medical service industry in China will undergo a significant amount of consolidations in the coming years. We believe we are well positioned to capitalize on these industry trends. We intend to leverage our leading position, reputation and extensive market knowledge to capture this huge growth opportunity through expansion of our network of aesthetic medical institutions network in China.

**INFORMATION TECHNOLOGY INFRASTRUCTURE**

We have licensed from an Independent Third Party the information technology system, which facilitates our business operations in three major areas: (i) management of clients’ accounts; (ii) reviewing of front-line staff’s performance, including billing, subscription and supply records; and (iii) computerisation of management and administrative tools for our aesthetic medical institutions. During the Track Record Period, our information technology system has enabled us to enhance the productivity and efficiency of our operations. All data generated in our information technology system are backed up periodically.

In order to meet the increasing demand of our services, we intend to enhance and upgrade our IT system by building a client management system, through which our clients’ information can be used for big data analytics purpose, to the extent permitted by relevant PRC laws and regulations.

**INTELLECTUAL PROPERTY**

As at the Latest Practicable Date, we have five trademarks registered in the PRC, two trademarks registered in Hong Kong and 24 registered domain names.

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## BUSINESS

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Details of our intellectual property rights which we consider to be or may be material to our business are set forth under the section headed “Appendix V — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights” in this prospectus.

We do not engage in any proprietary aesthetic medical research and development. We recognise the importance of our intellectual property rights and will protect and enforce our intellectual property rights when we become aware of any potential infringement. During the Track Record Period and as at the Latest Practicable Date, we were not engaged in or threatened with any claim for any material infringement of any intellectual property rights, whether as a claimant or as a defendant.

### PROPERTIES

As at the Latest Practicable Date, we do not own any properties but leased properties with an aggregate GFA of approximately 9,042 sq.m.. All of our aesthetic medical institutions are located on these leased properties with a term of at least five years.

Set forth below is a summary of our leased properties as at the Latest Practicable Date:

No.	Lessee	Location	Approximate GFA (sq.m.)	Use of property	Expiry date of leased term
1	Hangzhou Raily	3F., 290 Zhongshan N. Road, Hangzhou City	2,000	Aesthetic medical institution, Office	20 June 2025
2	Hangzhou Raily	4F., 290 Zhongshan N. Road, Hangzhou City	751	Aesthetic medical institution, Office	31 December 2024
3	Ruian Raily	Nos. 1068, 1070, 1072, 1072-1, 1074, 1074-1, 1076 & 1076-1 Ruixiang Avenue and Nos. 1, 3, 5, 7, 9, 11 & 13 Anyang Road, Ruian City	2,861	Aesthetic medical institution, Office	30 December 2024
4	Raily Tiange	166-1, Yugu Rd., Lingyin Avenue, Xihu District, Hangzhou City	986	Aesthetic medical institution	21 October 2021
5	Wuhu Raily	1F., No. 1 Jinghu Road, Jinghu District, Wuhu City	1,014	Aesthetic medical institution, Office	31 March 2025
6	Wuhu Raily	2F., Wuhu Garden Hotel, Jinghu District, Wuhu City	360	Aesthetic medical institution, Office	31 March 2025
7	Raily Beauty Consultation	5F., 290 Zhongshan N. Road, Hangzhou City	761	Office	31 May 2022

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## BUSINESS

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No.	Lessee	Location	Approximate GFA (sq.m.)	Use of property	Expiry date of leased term
8	Raily Beauty Consultation	Room 408 & 409, 4F., 290 Zhongshan N. Road, Hangzhou City	32	Office	31 December 2024
9	Guangzhou Yingjieshi	Room 1–218, No. 5 Mazhuang Gongye Street, Lirendong, Nancun town, Panyu District, Guangzhou City	68	Office	28 February 2021 <sup>(Note)</sup>
10	Guangzhou Yingjieshi Shenzhen Branch	Room 1008, Yinglong Business Building, Shangbaodong Road, Futian District, Shenzhen City	64	Office	30 September 2021
11	Shenzhen Ruiquan	Room 1006-B, 1007 and 1009-A, Yinglong Business Building, Shangbaodong Road, Futian District, Shenzhen City	145	Office	30 September 2021

*Note:* As at the Latest Practicable Date, we were negotiating with the relevant landlord to renew the lease.

For the properties leased by Hangzhou Raily and Raily Beauty Consultation with an aggregate GFA of 3,544 sq.m., the landlord has not provided us the building ownership certificate. As advised by our PRC Legal Advisers, there is a risk that the landlord from whom we lease such property may not have the right to lease such properties to us; and as a result of that the relevant lease agreements may be deemed invalid or we may face challenges from property owners or other third parties to the lessor's rights. We used those leased properties for provision of aesthetic medical services and as our offices. As at the Latest Practicable Date, those leased properties were still in the process of obtaining the building ownership certificate. Based on our communication with the landlord, it is expected that the building ownership certificate will be obtained in the second half of 2021.

Based on (i) a confirmation issued by Hangzhou Planning Bureau on 12 December 2016 confirming that the ownership of those properties we leased belonged to the landlord; and (ii) the interview with Hangzhou Real Estate Registration Service Centre conducted on 7 May 2019 confirming that (a) the relevant land was legally granted to the landlord and the relevant construction permits were obtained by the landlord; (b) the relevant building ownership certificates were not obtained due to the discrepancy in GFA agreed in the relevant land grant contract and the completed GFA; (c) it was in the process of issuing the building ownership certificate; and (d) the landlord may continue using those properties

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and we may continue leasing those properties, our PRC Legal Advisers advised that (i) Hangzhou Planning Bureau is the competent authority to issue such confirmation; and (ii) the chance of the relevant lease agreements being deemed invalid is remote. Our Directors confirm that, during the Track Record Period, up to the Latest Practicable Date, we had not received any claims or notices or warning letters from the relevant governmental authorities or any third parties regarding our right to lease those properties.

In the remote circumstance that we are forced to relocate, our Directors estimate that (i) our Raily Tiange may cover our provision of aesthetic medical service in Hangzhou City during the relocation to minimize the adverse impact on our business operation; and (ii) the relocation costs of approximately RMB4 million to relocate our operations in Hangzhou Raily and Raily Beauty Consultation will be incurred and such relocation will take approximately three months.

In addition, as at the Latest Practicable Date, four of the above agreements with an aggregate GFA of 2,428 sq.m. have not been registered with the relevant PRC authorities, primarily due to the difficulty of procuring our lessors' cooperation and inconsistent implementation of the PRC regulations by local authorities. As advised by our PRC Legal Advisers, failure to register an executed lease agreement will not affect its legality, validity or enforceability. However, we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for each unregistered lease agreement if the relevant PRC government authorities require us to rectify and we fail to do so within the specified time. We estimate that the maximum penalty we may be subject to for these unregistered lease agreements will be approximately RMB40,000, which we believe is immaterial. Therefore, we believe that the failure to register these lease agreements will not have any material adverse effect on our operations and financial condition. We will actively liaise with the respective lessors and the relevant local authorities to complete the registration of all such lease agreements, if possible.

As at 30 June 2020, no single property interest forming part of our non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, we are not required pursuant to Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests. As such, pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires us to include a valuation report with respect to all our interests in land or buildings.

## INSURANCES

As at the Latest Practicable Date, we maintained (i) public liability insurance covering third party bodily injury in our premises, which do not cover the potential liability from professional malpractice on the part of our physicians and medical staff and our medical institutions and services; and (ii) property insurance covering property damage in



connection with our business (subject to certain exceptions and limitations). As at the Latest Practicable Date, the aggregate coverage limit of our public liability insurance is RMB15 million. We also contribute to social security insurance for our employees in accordance with applicable PRC laws, rules and regulations. During the Track Record Period and up to the Latest Practicable Date, we did not submit any material insurance claims, nor did we experience any material difficulties in renewing our insurance policies.

Our PRC Legal Advisers confirm that our Group, as an aesthetic medical service provider, and our physicians (both employee physicians and contract physicians) and other medical staff are not mandatorily required by the PRC laws or regulations to maintain any medical liability insurance or professional malpractice insurance in the provision of aesthetic medical services. During the Track Record Period and up to the Latest Practicable Date, we do not maintain any medical liability insurance or professional malpractice insurance for our physicians (both employee physicians and contract physicians) in the provision of aesthetic medical services. According to the Frost & Sullivan Report, it is not uncommon for market players in the aesthetic medical service industry to be without maintaining medical liability insurance themselves or maintaining professional malpractice insurance for its physicians and medical staff as there are no suitable insurance product readily available in the market for corporate aesthetic medical service providers and their physicians. However, as part of our risk management, our Group has been actively looking for suitable medical liability insurance policy in the market and will purchase one once we have found suitable policy available in the market. In addition, to the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, the employee physicians and contract physicians of our Group did not take out medical professional malpractice liability insurance themselves. According to the Frost & Sullivan Report, given the number of client complaints generally accounted for a very low percentage of the total number of aesthetic medical procedures performed, being around 1%, and therefore the relevant percentage of clients' claims for medical professional malpractice and thus the risk of being subject to successful client's claim for the same, are not high in the PRC aesthetic medical industry, the practice of not maintaining personal medical professional malpractice liability insurance by physicians are not uncommon in the industry. Although our physicians (including employee physicians and contract physicians) have, under their respective service contract, agreed to be responsible to compensate our Group's claims for losses arisen from their gross negligence, willful misconduct or other dereliction of duties, there is no assurance that the relevant physicians have sufficient financial means to compensate our Group. Therefore, we may suffer severe losses which may materially and adversely affect our operations and financial results if there is a claim against our Group or our physicians or staff for any liabilities.

Based on the fact that (i) it is not mandatorily required by the PRC laws or regulations to maintain any medical liability insurance or professional malpractice insurance in the provision of aesthetic medical services as advised by our PRC Legal Advisers; and (ii) due to our stringent safety controls and procedures implemented in all of our aesthetic medical institutions, none of our physicians or other medical staff professionals were involved in any disciplinary proceedings or otherwise determined to be liable for any medical incident as defined under the Medical Incidents Regulation during the Track Record Period and up to the Latest Practicable Date, our Directors believe that the insurance coverage for our

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operations was adequate and in line with industry practice as at the Latest Practicable Date. However, the risks related to our business and operations may not be fully covered by insurance. Please see the section headed “Risk Factors — Risk Relating to our Business — We do not maintain medical liability insurance and may be subject to liability claims in respect of medical malpractices that may occur in our aesthetic medical institutions conducted by our physicians and medical staff, which could lead to material financial and reputational losses to our Group” and “Risk Factors — Our insurance coverage may be insufficient to cover all risks involved in our business operations” in this prospectus for further details.

### OUR EMPLOYEES

As at 30 June 2020, we had 347 employees in the PRC. The following table sets out details of our employees by function.

Function	Number of Employees
Management	13
Physicians <sup>(1)</sup>	52
Medical Staff <sup>(2)</sup>	103
Sales and Marketing Staff	86
Client Service Personnel	38
Finance and Accounting Staff	23
Human Resources and Administration Staff	32
<b>Total</b>	<b>347</b>

*Notes:*

1. 12 contract physicians, who are not our employees, are excluded.
2. Our medical staff primarily include assistant physician (執業助理醫師), medical graduates, nurses and pharmacists.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, our total staff costs were RMB38.1 million, RMB50.0 million, RMB66.4 million and RMB26.0 million, respectively, representing approximately 33.8%, 31.4%, 34.8% and 44.3%, respectively of our total revenue for the relevant periods.

We believe we have a good relationship with our employees. Our employees are not represented by a labour union. During the Track Record Period and up to the Latest Practicable Date, 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.

Each of our aesthetic medical institutions independently recruits and enters into employment contracts with its own employees. We generally recruit our employees through placing advertisements in the market. We did not engage any recruitment agencies for our recruitment during the Track Record Period. Generally, new recruits are offered a one to three months' probation period before becoming a permanent employee. The remuneration package of our employees includes basic salary, allowance and bonus. The dismissal events in our employment contracts are in line with the PRC Employment Contract Law.

### **Labour Dispatch Arrangements**

In addition to direct employment, during the Track Record Period, we entered into labour dispatch agreements with two Independent Third Party employment agents who has valid Labour Dispatch Business Permit (勞務派遣經營許可證). During the Track Record Period, the staff dispatched to us by the employment agent included physicians, medical staff and sales and marketing staff. Our Directors consider that the labour dispatch arrangement enabled us to maintain a sufficient while flexible level of labour force to meet our operation requirements. Pursuant to the labour dispatch agreements, we paid service fees at certain percentage of the remuneration of relevant dispatched staff to the employment agent, and the employment agent provided suitable dispatched staff to work for our Group based on our job requirements. Our Group was responsible for the wages of the dispatched staff and ensure their occupational health and safety, while the employment agent was responsible to arrange for their insurances and other welfare conditions as required by the PRC laws and regulations. During the Track Record Period, Hangzhou Raily, Raily Tiange, Wuhu Raily, Ruian Raily and Guangzhou Yingjieshi (the “**Relevant Subsidiaries**”) utilized and engaged dispatched staff. As at 31 December 2017, 2018 and 2019, and 30 June 2020, the number of dispatched staff under the labour dispatch arrangement was 71, 31, nil and nil which accounted for approximately 25.7%, 7.7%, nil and nil of the total number of our staff, respectively. For the three years ended 31 December 2019 and the six months ended 30 June 2020, the total staff cost involved in labour dispatch arrangement was approximately RMB11.8 million, RMB13.7 million, RMB6.2 million and nil, respectively. Under our labour dispatch arrangements, the employment agent and we agree on the number of staff, wages of the staff and the period of dispatch.

The number of dispatched staff engaged by the Relevant Subsidiaries had exceeded the regulatory threshold of 10% of the total number of their respective staff under the Interim Provisions on Labour Dispatch (《勞務派遣暫行規定》) during the Track Record Period. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the regulatory threshold of the dispatched staff for each of the Relevant Subsidiaries in aggregate was 26, 37, 35 and 33, respectively. The aggregate number of the dispatched staff exceeded the respective regulatory threshold of each of the Relevant Subsidiaries was 48, 12, nil and nil as at 31 December 2017, 2018 and 2019, and 30 June 2020, respectively. Such non-compliances were primarily caused by the staff responsible for ensuring compliance at the relevant time being unfamiliar with the relevant regulatory requirements. To rectify the situation, since August 2019, we have ceased all labour dispatch activities under the labour dispatch agreements with our employment agents. As advised by our PRC Legal Advisers, relevant governmental authorities may impose a fine of not less than RMB5,000 but not more than RMB10,000 per dispatched labour exceeding the regulatory threshold, in the circumstance where the entity

failed to rectify such violation within a certain period of time after the receipt of the notice of rectification. As (i) we have not received any notice of rectification in relation to our labour dispatch activities from any governmental authorities; and (ii) we have ceased all labour dispatch activities as at the Latest Practicable Date, our Directors are of the view that the likelihood of our Group being penalised is extremely remote.

During the Track Record Period and up to the Latest Practicable Date, we have not received any notice of rectification from any relevant governmental authorities nor is there any pecuniary penalty imposed on us in relation to the said non-compliances. Since (i) we have ceased all labour dispatch activities; and (ii) as confirmed by our Directors, we were not subjected to any administrative penalty by relevant government authority during the Track Record Period, our PRC Legal Advisers is of the view that the chance that we will be imposed a fine for such violation is low.

## **ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE**

We give high regard for environment protection, and are committed to promoting corporate social responsibility and sustainable development. Therefore, we seek to integrate these core values into our business operation by adopting and implementing various policies in relation to environmental, social and corporate governance responsibilities during the Track Record Period. In contemplation of the proposed Listing, we have integrated our various policies into a set of comprehensive policy on environmental, social and corporate governance responsibilities (the “**ESG Policy**”) which sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations in accordance with the Listing Rules. Our Directors believe that the ESG Policy adopted by us is adequate and effective in addressing our ESG-related risks as at the Latest Practicable Date.

Set forth below are examples of our ESG Policy in different aspects:

*Environmental protection* — We are subject to various PRC laws, regulations and rules with respect to environmental matters, including aesthetic medical institution sanitation, disease control, disposal of medical waste, and discharge of waste water, pollutants and radioactive substances. For further details, please see the section headed “Regulatory Overview — Rules on Environmental Protection Related to Medical Institutions” in this prospectus. We generate various medical wastes and substances, such as used disposable medical supplies and devices including needles, cotton pads and other wound dressings, waste blood and serum, and other discarded human tissues, from various procedures during our provision of aesthetic medical services to our clients. Since the improper disposal of such medical waste and substance is dangerous to public health as well as the environment, we put particular emphasis on the proper disposal of medical waste and substances, and adopted relevant control measures including (i) establishing and implementing detailed policies and procedures for handling hazardous waste, especially for disposing medical waste and storage of pharmaceutical drugs, such as proper classification of medical waste according to the relevant PRC laws and regulations and engaging qualified third party medical waste treatment company to collect medical waste from our aesthetic medical institutions; (ii) conducting regular inspections on the situation of sanitation and disposal

of medical waste for each aesthetic medical institutions; and (iii) providing trainings to our staff in relation to proper handling of medical waste and substance from time to time to update them with the relevant internal standards and procedures, and relevant environmental laws and regulations, to ensure their compliance with the same. We also have established other policies relating to environmental protection, including (i) establishing key performance index for our emissions including medical waste and water pollutants; and (ii) efficient use of resources including water and electricity. Our Directors confirmed that we have complied with applicable environmental laws and regulations in the PRC in all material respects and we have not encountered penalty for failure to comply with the applicable environmental laws and regulations during the Track Record Period and up to the Latest Practicable Date.

*Occupational Safety* — We value the importance of maintaining a safe, healthy and efficient work environment for all of our employees. Our employees are required to abide by occupational health and safety regulations in the PRC, as well as health guidelines in our employee handbooks. In order to provide a safe working environment, we set out a series of work safety measures in the staff manual for our staff to follow. We believe that we were in compliance with health and work safety requirements in all material respects during the Track Record Period up to the Latest Practicable Date.

*Employee trainings* — We place significant emphasis on employee trainings and development. 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.

*Social responsibility* — We care about our social responsibility and our relationship with different stakeholders in the community. We conduct trainings and formulate staff handbook to strengthen our communication with our employees internally and organize community initiatives to maintain our bonding with external stakeholders. In particular, in order to avoid unscrupulous sales practices including marketing and promotions that excessively encourage young and immature females to undertake aesthetic surgical procedures, we have established a series of control measures including: (i) requiring aesthetic surgery services to be provided only to adults over 18 years old, save for limited aesthetic surgical procedures which are preferentially be conducted at a younger age, such as orthodontics and cosmetic dentistry services and removal of Nevus of Ota hyperpigmentation, which we require young adults below 18 years old be accompanied by their guardian; (ii) a registration form is required to be filled and signed by all of our clients to state their personal information as well as the reasons of accepting our aesthetic medical services; and (iii) immediately prior to the performance of any procedure, the responsible physician will confirm the identity of the client and explain again the proposed procedures to the client, including the objective and processes, medical risks, possible side effects, normal recovery period and answers any questions the client may have. Clients of aesthetic surgical procedures are asked to study and sign a consent form, which, among others, requires the clients to acknowledge their understanding of the proposed procedure as explained by the responsible physician, the possible side effects of the procedure and their consent to undergo such procedure. For further details, please refer to the paragraph headed “Our Aesthetic Medical Service Process” in this section; (iv) we do not provide sales



on credit or any kind of loans to our clients in respect of the service fees in order to avoid the sale of excessive and unnecessary aesthetic medical procedures to clients; (v) we provide trainings to our sales and marketing team from to time in relation to proper sales practices; and (vi) we have systematic and efficient client feedback management system and client complaints management system to handle any clients' feedback and complaints in relation to our sales practices. For details, please refer to the paragraphs headed "Client Feedback Management" and "Client Complaints Management" in this section.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, our annual cost for implementing our ESG Policy and for compliance with the relevant rules and regulations, was approximately RMB69,000, RMB89,000, RMB127,000 and RMB61,000, respectively. We expect such compliance cost to increase in the future in line with the growth and expansion of our business.

Our Board has the collective responsibility for establishing, adopting and reviewing the vision, policies and target of our ESG Policy, and evaluating and determining our ESG-related risks regularly. Our Board may assess or engage external consultants to evaluate our risks in these regards and will take necessary improvement measures to mitigate identified risks.

## **AWARDS AND RECOGNITIONS**

Since 2016, the CAPA begins to review annually the participating aesthetic medical service providers. The standard is based on the "Class III General Hospital Accreditation Standards (2011 Edition)" and "Specialty Hospital Evaluation Standards", which draws on the experience of foreign hospitals such as the standards of Joint Commission International and the actual level of domestic aesthetic medical institutions. Pursuant to the grading system, aesthetic medical institutions are categorised into five levels of 5A, 4A, 3A, 2A and A, with "5A" being the highest. The grading system is implemented through a point deduction system for every non-achievement of standards of criteria of assessment with 1,000 points being the start-off position. An aesthetic medical institution who obtains more than 600, 700, 800, 900 and 950 points can be rated as an A, 2A, 3A, 4A and 5A institution, respectively. The major assessment criteria under the grading system, being those with more prominent weighting in terms of scoring points, include experience of the physicians, management system, security, clinical technology and service quality. Being awarded 5A institution is a hallmark of front-end status in the domestic market and would be recognised as an aesthetic medical institution that is worthy of people's trust. In 2018, Hangzhou Raily, being excelled in a number of criteria of assessment, including experience of the physicians, management system, security, clinical technology and service quality, was rated a 5A institution by the CAPA. Hangzhou Raily was one of five aesthetic medical institutions in Hangzhou City that were awarded "5A" recognition by the CAPA as at the Latest Practicable Date.



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Besides the 5A institution award, we have received the following major awards in recent years:

Year	Awardee	Award	Issuing Organisation
2016	Our Group	Special Merit Award of Chinese Association of Plastic and Aesthetics (中國整形美容協會特別榮譽獎)	CAPA
2018	Hangzhou Raily	Academic Contribution Award in 2018 (2018年度學術貢獻獎)	ZAPA
2018	Hangzhou Raily	National A-Level Advanced Unit Award (全國創建A等級先進單位獎)	ZAPA
2018	Hangzhou Raily	Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City	Meituan (美團)
2018	Hangzhou Raily	AliHealth Most Popular Medical Institution Award (阿里健康最受歡迎醫療機構獎)	AliHealth (阿里健康)
2019	Hangzhou Raily	Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院)	Soyoung.com (新氧)
2019	Hangzhou Raily	A Level Aesthetic Medical Institution in Zhejiang and Standardized Medical Quality Outstanding Contribution Award (浙江省醫療美容機構A等級評價規範醫療質量突出貢獻獎)	ZAPA

## SEASONALITY

Our results of operations are exposed to seasonal fluctuations of demand for our services. During the Track Record Period, we have experienced relatively higher client visits in the fourth quarter of each year, which was mainly because we experienced higher client visits or purchases for the period from October to December, primarily attributable to our sales and promotional efforts for holidays and special days, including National Day holiday, Double 11 Day, Christmas and the upcoming New Year and Chinese New Year. As such, our revenue was higher in the fourth quarter of each year during the Track Record Period.

## **LICENSES, PERMITS AND CERTIFICATES**

We operate in a heavily regulated industry. As a result, we are required to obtain various licenses, permits, approvals and certificates for our operations. For details of the relevant requirements, please refer to the section headed “Regulatory Overview” in this prospectus. As advised by our PRC Legal Advisers, we had obtained all necessary licenses, permits and approvals which are material to our current operations and such licenses, permits and approvals were valid and remain in effect as at the Latest Practicable Date. The following table sets forth the major licenses, permits and certificates for our aesthetic medical institutions as at the Latest Practicable Date:

<b>License/permit/certificate</b>	<b>Effective Date</b>	<b>Expiration Date</b>
<b><i>Hangzhou Raily</i></b>		
Medical Institution Practicing License (醫療機構執業許可證)	19 November 2018	18 November 2021
Licenses for Radiotherapy (放射診療許可證)	18 November 2014	N/A
License for Safe Radiation (輻射安全許可證)	7 December 2018	6 December 2023
Medical Institution Seal Card (醫療機構印鑑卡)	17 December 2019	16 December 2022
<b><i>Ruian Raily</i></b>		
Medical Institution Practicing License (醫療機構執業許可證)	8 April 2018	7 April 2023
License for Safe Radiation (輻射安全許可證)	3 December 2019	2 December 2024
License for Radiotherapy (放射診療許可證)	10 January 2020	N/A
Medical Seal Card for the Purchase and Use of Narcotic Pharmaceutical and Class I Psychotropic Substances (麻醉藥品、第一類精神藥品購用印鑑卡)	6 December 2016	5 December 2021
<b><i>Raily Tiange</i></b>		
Medical Institution Practicing License (醫療機構執業許可證)	23 January 2019	18 August 2021
Medical Institution Seal Card (醫療機構印鑑卡)	15 March 2019	14 March 2022
<b><i>Wuhu Raily</i></b>		
Medical Institution Practicing License (醫療機構執業許可證)	26 September 2018	15 June 2021
Medical Seal Card for the Purchase and Use of Narcotic Pharmaceutical and Class I Psychotropic Substances (麻醉藥品、第一類精神藥品購用印鑑卡)	26 March 2020	25 March 2023

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We monitor the validity status of our licenses, permits and certificates, and make timely applications for the renewal of relevant licenses, permits and certificates prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses, permits and certificates for our business operations during the Track Record Period and up to the Latest Practicable Date. If the application documents for renewal have been submitted to the relevant authorities in accordance with applicable laws and regulations, we expect there will not be any material legal impediment in renewing these licenses, permits, approvals and certificates as they expire in future. However, we cannot assure you that we will be able to obtain or renew all requisite licenses, permits or certificates in the future. For more details, please refer to the section headed “Risk Factors — Risks Relating to our Industry — We conduct our business in a heavily regulated industry and incur on-going compliance costs and face potential penalties for non-compliance” in this prospectus.

## LEGAL PROCEEDINGS AND COMPLIANCE

### Non-compliance Incidents

During the Track Record Period and up to the Latest Practicable Date, our Company and its subsidiaries were involved in the following non-compliance incidents, a summary of which is set out below:

Particulars of non-compliance	Reasons for non-compliance	Maximum potential liabilities (where applicable) and legal consequences and financial effect (if any)	Rectification actions taken and status, measures to prevent recurrence of such non-compliance
<b>1. Medical advertisement</b>			
During the Track Record Period and up to the Latest Practicable Date, there were 6 incidents where we were fined for which the content of medical advertisement published violated relevant laws and regulations of the PRC Advertisement Law (中華人民共和國廣告法) and/or Medical Advertising Management Measures (醫療廣告管理辦法) (“ <b>Advertisement Law</b> ”):	The incidents were primarily caused by some of our employees responsible for publication of advertisements did not have complete and accurate understanding of the laws and regulations applicable to our Group’s advertising activities.	As a result of these incidents mentioned in (a) to (f), we paid administrative penalty of RMB59,900 in total.  Our Directors believe that the administrative penalties we paid for such non-compliant medical advertisements did not cause any material adverse effects on our business, financial condition and performance as well as results of operations during the Track Record Period.	We terminated or rectified the relevant non-compliant medical advertisements immediately after we were notified by Hangzhou City Xiacheng District Administration Bureau for Market Regulation, Wuhu City Jinghu District Administration Station for Market Regulation and Ruian City Administration Bureau for Market Regulation, respectively, of such non-compliance and we have enhanced our internal advertisement procedures to regulate the publishing and advertising activities of our Group in November 2019, such as the “two-step review system” in that all applications for publishing advertisement submitted by marketing staff must be reviewed by the head of the marketing department and the head of the legal department which are then approved by Mr. Yu, our Chief Executive Officer, to ensure that all publishing and advertising activities must comply with relevant laws and regulations.  We have also enhanced our internal advertisement policies setting out the content of medical advertisement which violates the Advertisement Law in November 2019, including but not limited to, unproven statistics and exaggerated statements. All employees of our Group are required to observe these policies and procedures, pursuant to which all publishing and advertising activities must comply with relevant laws and regulations.  We have provided training on the regulatory requirements applicable to our Group’s advertising activities to our employees in November 2019 to ensure our compliance with relevant regulatory requirements in the future.  We will also engage external legal advisers after Listing to advise on the applicable laws and regulations and provide training to our Directors and employees on the Advertisement Law when required.  Based on our remedial actions taken by our Group, our business nature and operation scale and the results of our internal control adviser’s assessment and reviews, we confirm that our remedial actions are consistent with those recommended by the internal control adviser to avoid recurrence of the non-compliances of media advertisement. On that basis, our Directors are of the view that our enhanced advertising policies are adequate and effective.  Our Directors are of the view that these non-compliance incidents did not have a material adverse effect on our business, financial condition or results of operations and further confirm that we have taken all reasonable steps to adopt an effective internal control system to prevent the future re-occurrence of such non-compliance incidents.
(a) In September 2017, Hangzhou Raily breached the Advertisement Law for inaccurate advertisement;			
(b) In August 2018, Hangzhou Raily breached the Advertisement Law for displaying prohibited advertisement;			
(c) In August 2018, Ruian Raily breached the Advertisement Law for displaying prohibited advertisement;			
(d) In November 2018, Hangzhou Raily breached the Advertisement Law for displaying prohibited advertisements;			
(e) In February 2019, Wuhu Raily breached the Advertisement Law for displaying prohibited advertisement;			
(f) In April 2020, Wuhu Raily breached the Advertisement Law for inaccurate advertisement, which was posted in June 2019.			

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Particulars of non-compliance	Reasons for non-compliance	Maximum potential liabilities (where applicable) and legal consequences and financial effect (if any)	Rectification actions taken and status, measures to prevent recurrence of such non-compliance
<b>2. Medical documents not issued by qualified person</b>			
During the Track Record Period and up to the Latest Practicable Date, there were 2 incidents where we were fined for having medical documents not issued by a qualified person:	The incidents were primarily caused by the oversight of the physicians who omitted to sign on the relevant medical documents before their issuing. The incidents were unintentional and was attributable to the inadvertent oversight by our physicians at the relevant time.	As a result of these incidents, we paid administrative penalty of RMB6,600 in total.  Our Directors believe that the administrative penalties we paid for such non-compliant incidents did not cause any material adverse effects on our business, financial condition and performance as well as results of operations during the Track Record Period.	We have enhanced our internal policies and procedures since November 2019 to require our employees to adhere to the issuing and signing of medical documents' processes in that medical documents to be issued must be signed by a qualified physician timely. In addition, a designated medical staff is required to carry out checks on medical documents at our medical institutions regularly.  We designated a medical staff in-charge to strengthen the implementation of such policies and procedures in November 2019, including conducting regular training to remind our employees of the importance of complying with the policies and procedures, including the "issuing and signing of medical documents' processes" and carrying out of checks on medical documents at our medical institutions. Any failure to comply with the policies and procedures by any employee shall be subject to internal disciplinary actions and be assessed adversely in their annual performance review of our Company.  We will also seek advice of relevant legal advisers in the PRC from time to time in order to adhere to the relevant laws and regulations in the PRC.
(a) In November 2017, Raily Tiange was fined for issuing medical prescription form not by a qualified physician; and			
(b) In November 2017, Ruian Raily was fined for conducting and issuing blood test report not by a qualified physician.			
<b>3. Medical treatment not carried out by qualified person</b>			
In August 2019, there was 1 incident where Wuhu Raily was fined for having non-invasive dermatology laser treatment carried out by unqualified person.	The incident was primarily caused by the nurse carrying out non-invasive dermatology laser treatment for a patient under the supervision and instructions of the qualified physician, who was present during the entire course of such treatment.	As a result of this incident, we paid administrative penalty of RMB2,000 in total.  Our Directors believe that the administrative penalties we paid for such non-compliant incidents did not cause any material adverse effects on our business, financial condition and performance as well as results of operations during the Track Record Period.	We have established policies and procedures for conducting medical treatment since November 2019, and all employees of our Group are required to observe these policies and procedures. It is set out in the policy that all medical treatments must be carried out by a qualified person. In addition, the medical department is required to maintain a checklist setting out all qualifications required for all medical treatments and a designated staff is instructed to ensure that relevant requirements have been fulfilled.  We designated a medical staff in-charge to strengthen the implementation of such policies and procedures in November 2019, including conducting regular training to remind our employees of the importance of complying with policies and procedures. Any failure to comply with the policies and procedures by our employees shall be subject to internal disciplinary actions and be assessed adversely in the annual performance review of our Company. As a result of the incident, the relevant physician and the nurse paid administrative penalties.  We will also seek advice of relevant legal advisers in the PRC from time to time in order to adhere to the relevant laws and regulations in the PRC.

Particulars of non-compliance	Reasons for non-compliance	Maximum potential liabilities (where applicable) and legal consequences and financial effect (if any)	Rectification actions taken and status, measures to prevent recurrence of such non-compliance
<b>4. Social insurance fund contributions and housing provident fund contributions for our employees</b>			
During the Track Record Period and up to the Latest Practicable Date, we did not make adequate contributions to social insurance fund and housing provident fund for our employees. For each of the three years ended 31 December 2019 and the six months ended 30 June 2020, the underpaid social insurance fund contributions and housing provident fund contributions amounted to approximately RMB1.0 million, RMB2.1 million, RMB1.2 million and RMB0.5 million, respectively.	The non-compliance was mainly due to (i) inadvertent oversight of the relevant PRC laws and regulations; (ii) our local staff responsible for ensuring compliance at the relevant time being unfamiliar with the relevant regulatory requirements; and (iii) inconsistent interpretation by local authorities in the PRC of the relevant laws and regulations.	<p>According to Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Administrative Regulations on the Housing Provident Fund of the PRC (《住房公積金管理條例》), we are required to make social insurance fund contributions and housing provident fund contributions for our employees in the PRC.</p> <p>If an employer fails to pay its social insurance contributions in accordance with Social Insurance Law of the PRC, the regulator may demand that the employer to pay all outstanding social insurance contributions within a prescribed time limit. The employer may also be subject to a surcharge at a daily rate of 0.05% on the outstanding amount, accruing from when the social insurance funds are due. If the employer fails to make such payment within a prescribed time limit, the relevant authority may impose an additional fine of one to three times the outstanding amount.</p> <p>If an employer fails to pay its housing provident fund contributions in accordance with the Administrative Regulations on the Housing Provident Fund of the PRC, the regulator has the power to order the employer to make contribution within a prescribed time limit and if the employer fails to act accordingly, an application of compulsory enforcement can be made to the People's Court of the PRC.</p>	<p>All of our relevant PRC subsidiaries had obtained written confirmations from the relevant social insurance fund and housing provident fund authorities, being Human Resources and Social Security Bureau of Hangzhou City Xiacheng District and Xihu District, Social Security Service Center of Wuhu City Jinghu District, Human Resources and Social Security Bureau of Ruian City, Social Development Security Bureau of Ningbo City Daxie Development Zone, Human Resources and Social Security Bureau of Guangzhou City Panyu District, Hangzhou City Housing Provident Fund Management Center, Wuhu City Housing Provident Fund Management Center, Wenzhou City Housing Provident Fund Management Center Ruian Sub-center, Housing Fund Management Center of Ningbo City Beilun District and Guangzhou City Housing Provident Fund Management Center, each stating that as of the Latest Practicable Date (i) no administrative action, fine or penalty had been imposed by the relevant competent authorities for failure to make adequate contributions to the social insurance fund and housing provident fund; and/or (ii) the relevant PRC subsidiaries were in compliance with respective laws and regulations in material aspects. Our PRC Legal Advisers is of the view that the relevant governmental authorities are the competent authorities to issue such confirmations.</p> <p>According to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Counsel and Stabilization the Levy of Social Security (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) (the "Notice") released by the Ministry of Human Resources and Social Security on 21 September 2018, the relevant authorities are strictly prohibited from taking the initiatives to collectively recover the historical outstanding social security fund from employers.</p> <p>Our PRC Legal Advisers is of the view that (i) in relation to social insurance fund, based on the above written confirmations and Notice, unless new laws and regulations are promulgated to the contrary, the risk that the relevant competent authorities will take initiative to collectively recover the historical unpaid social insurance fund for the period before the issuance of Notice from us is low; (ii) in relation to housing provident fund, based on the above written confirmations, and as confirmed by the Directors, the risk that the relevant competent authorities will take initiative to collectively recover the historical unpaid housing provident fund is relatively low.</p> <p>We have made provisions for the underpaid social insurance fund contributions and housing provident fund contributions of approximately RMB1.0 million, RMB2.1 million, RMB1.2 million and RMB0.5 million for the underpaid social insurance and housing provident fund contributions for each of the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively.</p>



## BUSINESS

Particulars of non-compliance	Reasons for non-compliance	Maximum potential liabilities (where applicable) and legal consequences and financial effect (if any)	Rectification actions taken and status, measures to prevent recurrence of such non-compliance
			<p>We have been actively communicating with the relevant government authorities and the PRC legal advisers as to the applicable bases for calculation of the social insurance and housing provident fund contributions, and liaising with our respective employees on the social insurance and housing provident fund contributions at the rate approved by the relevant government authorities. Since November 2020, we had rectified and settled the Company's portion of the social insurance fund contributions for all of our employees in Zhejiang Province; while in Anhui Province, we had rectified the Company's portion of the social insurance fund contributions for all of our employees since December 2020 and will settle such contributions starting from the nearest next settlement day, which is expected to be in January 2021. Due to (i) window for adjusting the applicable bases for calculation of the social insurance and housing provident fund contributions in relevant competent authorities is only available in certain time of the year; and (ii) it takes time for the Group to liaise with all of our employees on the social insurance and housing provident fund contributions, as at the Latest Practicable Date, we had partially settled the underpaid housing provident fund contributions in Zhejiang Province. We undertake that, we will make contribution for the remaining employees to the social insurance and housing provident fund contributions in Zhejiang Province and Anhui Province in line with the relevant PRC laws and regulations, in the next earliest window allowed by the relevant competent authorities for adjusting the applicable bases for calculation of the social insurance fund contributions and housing provident fund. We further undertake that if we receive any order from the relevant authorities requiring us to settle the underpaid social insurance or housing provident fund contributions within a time limit, we will fulfill the relevant requirements in a timely manner. Also, we intend to maintain close communication with our PRC legal advisers and to consult them from time to time to ensure compliance with the applicable laws and regulations going forward.</p> <p>Our Directors believe that having made the provisions for the underpaid social insurance fund contributions and housing provident fund contributions, this non-compliant incident will not have a material adverse effect on our financial performance during the Track Record Period up to the Latest Practicable Date and after Listing.</p> <p>We have provided trainings on corporate governance to our Directors in January 2020. We have designated the head of our human resources department to carry out the following procedures to ensure that we comply with the laws and regulations related to social insurance fund and housing provident fund contributions including:</p> <ul style="list-style-type: none"> <li>(i) reviewing the employee record and examining whether our Group has made social insurance fund and housing provident fund contributions for every employee;</li> <li>(ii) reporting to our finance department on the number of employees, social insurance fund and housing provident fund contribution. Our finance department would check the amount of contributions against the employee list; and</li> <li>(iii) investigating variances with the records kept by our finance department, if any.</li> </ul> <p>We shall also ensure that we maintain close communication with our PRC legal advisers and consult them from time to time in relation to the contribution requirements of social insurance fund and housing provident fund to comply with the relevant laws and regulations in the PRC.</p>

Except as disclosed in the above, we complied with the laws and regulations of the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.

**Enhanced Internal Control Measures**

In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented measures with a view to establishing and maintaining our internal control system, including monitoring of operational processes, the establishment of risk management policies and compliance with applicable laws and regulations. In particular:

- (i) our Directors have attended trainings conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and the Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong;
- (ii) we have instituted procedures for lines of communication and provided a process by which our employees can identify and report potential non-compliance exposures;
- (iii) we have appointed Innovax Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines;
- (iv) we have established an audit committee which comprises three independent non-executive Directors. The audit committee has also adopted its terms of reference which set out clearly its duties and obligations for ensuring compliance with the relevant regulatory requirements. In particular, the audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters;
- (v) our Company has appointed Mr. Chan Oi Fat as our company secretary to oversee the company secretarial matters of our Company; and
- (vi) our Company will, from time to time, appoint external legal advisers, where applicable, to advise us on compliance with and to provide us with updates on the changes in the Listing Rules and the applicable laws, rules and regulations from time to time to see if any change is required to be made with our operation and internal control system.

We have appointed an independent internal control adviser to conduct an internal control review. Such internal control adviser has reviewed the implementation status of the above corrective actions. The above corrective actions are consistent with those recommended by the internal control adviser in addressing some key findings of its review on our internal controls. Based on the findings, recommendations and testing results of the work performed by the internal control adviser, our Directors are of the view that such remedial actions are adequate and effective.

Having taken into account the fact that (i) our Group has taken corrective measures and the abovementioned non-compliance incidents have been rectified to the extent practicable; (ii) our Group has implemented the abovementioned additional measures to prevent reoccurrence of the non-compliance incidents; and (iii) the non-compliance incidents were unintentional, did not involve fraudulent act on the part of our Directors or cast doubt on their integrity, our Directors are of the view, and the Sole Sponsor concurs, that the abovementioned non-compliance incidents will not have any material adverse effect on our operations and financial condition; and such incidents do not have any material impact on the suitability of our Directors and our suitability for Listing. Our Directors are satisfied that our internal control system is adequate and effective for our current operating environment.

### **Legal Proceedings**

As at the Latest Practicable Date, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation.

### **Medical Incidents**

According to the Regulations on Handling Medical Incidents (《醫療事故處理條例》) (the “**Medical Incidents Regulations**”), “medical incident” is defined as an accident caused by a medical institution or its medical personnel resulting in personal injuries to a patient due to faults in medical activities as a result of violation of the laws, administrative regulations or departmental rules on medical and health administration, or of standards or procedures for diagnosis, cure and nursing. For details, please refer to the section headed “Regulatory Overview” in this prospectus. After consulting our PRC Legal Advisers in relation to the Medical Incidents Regulations, our Directors confirm that we did not have any medical incident as defined under the Medical Incidents Regulation during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, none of our physicians or other medical staff professionals were involved in any disciplinary proceedings or otherwise determined to be liable for any medical incident as defined under the Medical Incidents Regulation.

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## CONNECTED TRANSACTIONS

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We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below details of the non-exempt continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### Contractual Arrangements

##### *Background*

As disclosed in the section headed "Contractual Arrangements" in this prospectus, the business operations of the VIE Entities constitute a business restricted to foreign investment in the PRC, therefore, we cannot directly acquire equity interests over certain percentage in the VIE Entities. As a result, our Group has entered into a series of agreements narrowly tailored to provide our Group with control over the VIE Entities and grant our Group the right to acquire interests of the VIE Entities when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, our Group supervises and controls the business operations of the VIE Entities and derives economic benefit from the VIE Entities.

The Contractual Arrangements consist of a series of agreements, namely Business Operation Agreements, Exclusive Option Agreements, Equity Pledge Agreements and Voting Rights Proxy Agreements. See the section headed "Contractual Arrangements" in this prospectus for further details.

##### *Listing Rules implementations*

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their relationship with our Group:

Connected Persons	Connected Relationship
Mr. Fu	an executive Director and a Controlling Shareholder of our Company
Raily Beauty Consultation	an associate of our Controlling Shareholders
VIE Entities	associates of our Controlling Shareholders

### APPLICATION FOR WAIVER

#### Contractual Arrangements

In view of the Contractual Arrangements, our Company has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with (i) announcement, circular and independent Shareholders' approval requirements pursuant to 14A.105 of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting annual caps for the transactions contemplated under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange, subject to the following conditions:

- (a) *No changes without independent non-executive Directors' approval.* Except as described below, no changes to the terms of the Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (b) *No changes without independent Shareholders' approval.* No changes to the terms of the Contractual Arrangements will be made without the approval of our Company's independent Shareholders.
- (c) *Economic benefits flexibility:* 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.
- (d) *Renewal and reproduction:* The framework of the Contractual Arrangements may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company that our Group may wish to establish, without obtaining the approval of Shareholders, on substantially the terms described under the section headed "Contractual Arrangements". The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company that our Group may establish upon renewal and/or reproduction of the Contractual Arrangements will be treated as our Group's connected persons and transactions between these connected persons and our Group other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.

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## CONNECTED TRANSACTIONS

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- (e) *Ongoing reporting and approvals.* Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (i) details of the Contractual Arrangements in place during each financial period will be disclosed in our Group's annual reports and accounts in accordance with the relevant provisions of the Listing Rules;
  - (ii) our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Group's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by the 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;
  - (iii) our Company's auditor will carry out review procedures annually on the transactions under the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the VIE Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
  - (iv) for the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the VIE Entities will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the VIE Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the VIE Entities), and the transactions between these connected persons and our Group (including for this purpose, the VIE Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
  - (v) the VIE Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the VIE Entities will provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of our Company's auditors review of the connected transactions.



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## CONNECTED TRANSACTIONS

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### Director's Confirmation

Notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of our Group (the “**New Intergroup Agreements**”) and each of them, a “**New Intergroup Agreement**”) (which are (a) solely restricted to matters that are contemplated under the Contractual Arrangements; and (b) narrowly tailored to achieve our Company's business purposes and minimizing the potential for conflict with the relevant PRC laws and regulations) technically constitute continuing connected transaction under Chapter 14A of the Listing Rules, and our Directors consider that, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent Shareholder's approval requirements.

Based on the above, our Directors (including the independent non-executive Directors) confirm that the transactions contemplated under the Contractual Arrangements are fundamental to the legal structure and business operations of our Group and the nature of transactions contemplated under the Contractual Arrangements require a duration longer than three years. The Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

Our Directors also believe that our Group's structure, which allows the financial results of the VIE Entities to be fully consolidated into the financial statements of our Company, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that strict compliance with the requirements under Chapter 14A of the Listing Rules in respect of these continuing connected transactions would be impracticable and unduly burdensome and would impose unnecessary administrative costs upon our Company.

### The Sole Sponsor's Confirmation

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, have participated in the due diligence and discussion with the management and the PRC legal advisers and have obtained necessary representations and confirmations from our Company and the Directors.

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## CONNECTED TRANSACTIONS

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Based on the above, the Sole Sponsor confirms that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations, that such transaction have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and its Shareholders as a whole. With respect to the term of the relevant Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of the VIE Entities can be effectively and fully controlled by Raily Beauty Consultation, (ii) Raily Beauty Consultation can obtain the entire economic benefits derived from the operation of the VIE Entities, and (iii) any possible leakages of assets and values of the VIE Entities can be prevented both on an uninterrupted basis.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

Our Board will consist of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets out certain information about our Directors:

Name	Age	Position(s)	Roles and responsibilities	Date of joining our Group	Date of appointment as Director	Relationship with other Directors and senior management
Mr. Fu Haishu (傅海曙)	47	Chairman and executive Director	Overall management, decision-making and strategic planning	7 August 2008	2 January 2018	N/A
Mr. Yu Kai (余凱)	50	Chief Executive Officer and executive Director	Assisting in overall management and strategic planning	1 October 2017	30 May 2019	N/A
Mr. Song Jianliang (宋建良)	66	Dean of our four aesthetic medical institutions and executive Director	Assisting in overall management, strategic planning and managing our four aesthetic medical institutions	1 January 2008	30 May 2019	N/A
Mr. Xie Lijun (謝立俊)	46	Non-executive Director	Supervising the management of our Group	30 May 2019	30 May 2019	N/A
Ms. Fan Qirui (樊啟瑞)	36	Non-executive Director	Supervising the management of our Group	30 May 2019	30 May 2019	N/A
Mr. Cao Dequan (曹德全)	44	Independent non-executive Director	Supervising and providing independent advice to our Board	4 December 2020	4 December 2020	N/A
Ms. Yang Xiaofen (楊小芬)	42	Independent non-executive Director	Supervising and providing independent advice to our Board	4 December 2020	4 December 2020	N/A
Mr. Liu Teng (劉騰)	51	Independent non-executive Director	Supervising and providing independent advice to our Board	4 December 2020	4 December 2020	N/A

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## DIRECTORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Fu Haishu (傅海曙)**, aged 47, is the founder of our Group, executive Director and Chairman. 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 re-designated as our executive Director and Chairman on 30 May 2019. Mr. Fu is currently a director of Raily Beauty Consultation, Hangzhou Raily, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment, Guangzhou Yingjieshi and Shenzhen Ruiquan.

Mr. Fu graduated from 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 12 years of experience in the aesthetic medical industry. Prior to founding our Group, from December 1996 to December 2007, he had served as a surgeon in Ruian Red Cross Hospital (瑞安市紅十字醫院).

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 also appointed as the chairman of the Financial Investment Branch of the CAPA in September 2016 and became the managing director of the Standing Council of the CAPA in October 2016. Since November 2017, he has been serving 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).

**Mr. Yu Kai (余凱)**, aged 50, is the executive Director and Chief Executive Officer of our Group. Mr. Yu is responsible for assisting in the overall management and strategic planning of our Group. He was appointed as our executive Director on 30 May 2019 and is currently the Chief Executive Officer of Raily Beauty Consultation, Hangzhou Raily, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment, Guangzhou Yingjieshi and Shenzhen Ruiquan.

Mr. Yu obtained his Bachelor in Commercial Pricing from Hunan University of Commerce (湖南商學院) in June 1993.

Mr. Yu has over 10 years of experience in the healthcare industry. Prior to joining our Group, he worked in Xiangtan Longyang Food Co., Ltd. (湘潭市龍陽食品有限公司), a company primarily engaged in agency work of fast-moving consumer goods from January 2005 to August 2008, where he was in charge of the overall management of the company. From September 2009 to November 2010, he had served as the dean of Shenzhen Sun Aesthetic Surgery Hospital (深圳陽光整形美容醫院), where he was responsible for the overall management of the hospital. He subsequently joined Guangzhou Yuexiu Plastic

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## DIRECTORS AND SENIOR MANAGEMENT

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Surgery Clinic (廣州粵秀整形外科門診部) as the dean from March 2013 to April 2014, where he was responsible for the overall management of the hospital. In June 2015, Mr. Yu founded Guangzhou Yingjieshi, where he served as the deputy general manager until September 2017 and Chief Executive Officer since October 2017. Since October 2017, he has been working as the Chief Executive Officer of Raily Beauty Consultation, Hangzhou Raily, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment and Guangzhou Yingjieshi, where he is responsible for assisting in the overall management and strategic planning of our Group.

Mr. Yu was an executive director, general manager and/or, supervisor and/or legal representative of the below companies established in the PRC prior to its dissolution.

Name of Company	Nature of business	Methods of dissolution	Role(s)	Reasons of dissolution
Changsha Sandu Legend Investment Management Consulting Co Ltd (長沙三度傳奇投資管理諮詢有限公司)	Provision of management consulting services	Business license revoked	Executive director, legal representative and general manager	Cessation of business
Xiangtan Yuhu District Renmin Road Paipai Food Business Department (湘潭市雨湖區人民路派派食品經營部)	Sale of food	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan County Yisuhe Mingyuan Apiculture (湘潭縣易俗河明園蜂業)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Mingyuan Apiculture Jiefang Road Specialty Store (湘潭市雨湖區明園蜂業解放路專賣店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Xichun Road Bubugao Tianmei Mingyuan Apiculture Store (湘潭市雨湖區熙春路步步高甜美明園蜂業店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Yuetang District Walking Street Yukai Honey Shop (岳塘區步行街余凱蜂蜜店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution

## DIRECTORS AND SENIOR MANAGEMENT

Name of Company	Nature of business	Methods of dissolution	Role(s)	Reasons of dissolution
Xiangtan Yuhu District Shaoshan West Road Mingyuan Apiculture Store (湘潭市雨湖區韶山西路明園蜂蜜店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Yuetang District Yukai Bee Product Store (岳塘區余凱蜂產品店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Xinyi Xiangyuan Bakery (湘潭市雨湖區新溢香園麵包坊)	Sale of bread	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Baishi Mingyuan Apiculture (湘潭市雨湖區白石明園蜂業)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Guangyun Bee Product Store (湘潭市雨湖區廣雲蜂產品店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Yixiangyuan Bakery (湘潭市雨湖區溢香園麵包坊)	Sales of bread	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Mingyuan Apiculture Jinhai Branch (湘潭市雨湖區明園蜂業金海店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Xiangtan Yuhu District Fengcheping Mingyuan Apiculture Bee Product Store (湘潭市雨湖區風車坪明園蜂業蜂產品店)	Sale of honey products	Dissolved by deregistration	Legal representative	Voluntary dissolution
Loudi Louxing District Guangming Paipai Fresh Milk Business Department (婁底市婁星區光明派派鮮奶經營部)	Sale of fresh milk	Dissolved by deregistration	Legal representative	Voluntary dissolution
Loudi Louxing District Yixiangyuan Bakery (婁底市婁星區溢香園麵包店)	Sale of bread	Business license revoked	Legal representative	Cessation of business



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## DIRECTORS AND SENIOR MANAGEMENT

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Name of Company	Nature of business	Methods of dissolution	Role(s)	Reasons of dissolution
Changsha Jinhe Food Business Co Ltd (長沙錦和食品商貿有限公司)	Sale of honey products	Dissolved by deregistration	Supervisor	Voluntary dissolution
Guangzhou Yingjieshi Investment Management Consulting Co Ltd (廣州英傑仕投資管理諮詢有限公司)	Provision of medical institution management consulting services	Dissolved by deregistration	Supervisor	Voluntary dissolution

To the best knowledge, information and belief of Mr. Yu, he confirmed that (i) these companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on his part leading to the dissolutions of the above companies; (iii) he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolutions of above companies; and (iv) that no misconduct or misfeasance has been involved in the dissolution of the above companies.

**Mr. Song Jianliang (宋建良)**, aged 66, is the executive Director and 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 in Medicine from 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 33 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 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 in 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

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## DIRECTORS AND SENIOR MANAGEMENT

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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.

### Non-executive Director

**Mr. Xie Lijun (謝立俊)**, aged 46, was appointed as our non-executive Director on 30 May 2019. He is responsible for supervising the management of our Group.

Mr. Xie obtained a Bachelor of Economics in International Accountancy from Renmin University of China in July 1997. He further obtained a Master of Accountancy from Research Institute for Fiscal Science of the Ministry of Finance of the PRC (currently known as Chinese Academy of Fiscal Sciences) in November 2000. In June 2011, he completed the approved courses China Venture Capitalists Seminar from Beijing Technology and Business University.

Mr. Xie has over 22 years of experience in financial management and investment banking. Prior to joining our Group, Mr. Xie served as a senior credit analyst in Sino-Hawk Credit Rating Co., Ltd (鵬元資信評估有限公司) (currently known as CSCI Pengyuan Credit Rating Co., Ltd. (中證鵬元資信評估股份有限公司)) from August 1997 to February 2001. He then worked as a deputy general manager in China Great Wall Securities Co., Ltd (長城證券有限責任公司) from February 2001 to January 2008, where he was in charge of the investment banking department of the said company. He subsequently worked in CCB International (China) Limited (建銀國際(中國)有限公司) with his last position held as a executive general manager in CCBI Investment Fund Management Co., Ltd. (建銀創信投資基金管理(北京)有限公司) from January 2008 to June 2012. From March 2015 to June 2018, he joined Orient Asset Management (China) Corporation (中國東方資產管理(中國)有限公司) as a chief executive manager. Since March 2018, he has been a vice chief executive officer in Wonderland International Financial Holdings Limited.

Mr. Xie was a supervisor and/or legal representative of the below companies established in the PRC prior to its dissolution.

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## DIRECTORS AND SENIOR MANAGEMENT

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Name of Company	Nature of business	Methods of dissolution	Role(s)	Reasons of dissolution
Yangzhou Huagai Jianyang Venture Investment Management Centre (Limited Partnership) (揚州華蓋建揚創業投資管理中心(有限合夥))	No operation	Business license revoked	Legal representative	No operation
Beijing Saikesi Trading Co Ltd (北京賽可絲商貿有限公司)	No operation	Dissolved by deregistration	Supervisor	Voluntary dissolution

To the best knowledge, information and belief of Mr. Xie, he confirmed that (i) these companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on his part leading to the dissolutions of the above companies; (iii) he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolutions of the above companies; and (iv) that no misconduct or misfeasance has been involved in the dissolution of the above companies.

**Ms. Fan Qirui (樊啟瑞)**, aged 36, was appointed as our non-executive Director on 30 May 2019. She is responsible for supervising the management of our Group.

Ms. Fan graduated in from Huazhong University of Science & Technology with a Bachelor of Engineering and a Bachelor of Business Administration in June 2006. Ms. Fan obtained a Master of Business Administration from the Guanghua School of Management of Peking University in July 2019.

Ms. Fan has over 13 years of experience in financial management and investment banking. Prior to joining our Group, Ms. Fan worked as an assistant officer of the asset operation department in China Yangtze Power Co., Ltd. from July 2006 to November 2010. She then worked as a senior manager in China Construction Bank International Health Care Investment Management (Tianjin) Limited (建銀國際醫療保健投資管理(天津)有限公司) from December 2010. She also served as a senior investment manager in Jianyin Yuanwei Investment Fund Management (Beijing) Co., Ltd. (建銀遠為投資基金管理(北京)有限公司) from June 2011. She subsequently worked for China Resources Hospital Investment (China) Limited (華潤醫院投資(中國)有限公司) as an investment director from February 2013 to December 2015. Since December 2015, she has been working in China Orient Asset Management (International) Holdings Limited (中國東方資產管理(國際)控股有限公司) with her last position as a manager of the medical investment department. Since January 2017, she has been the director and general manager in Qinghai Province Dongfang Tibetan Medicine Industry Investment Management Co., Ltd (青海省東方藏醫藥產業投資管理有限公司).

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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent non-executive Directors

**Mr. Cao Dequan (曹德全)**, aged 44, was appointed as our independent non-executive Director on 4 December 2020. Mr. Cao is responsible for supervising and providing independent advice to our Board.

Mr. Cao obtained a Bachelor of Health Management from 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 subsequently completed the Public Health Leadership Professional Development Program in Griffith University in June 2010.

Mr. Cao has over 10 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 deputy secretary general of the Chinese Association of Plastic and Aesthetics (中國整形美容協會). He was then reappointed as a secretary general of the same association in January 2015.

**Ms. Yang Xiaofen (楊小芬)**, aged 42, was appointed as our independent non-executive Director on 4 December 2020. She is responsible for supervising and providing independent advice to our Board.

Ms. Yang obtained a Master of Law from Tongji University in June 2013. Ms. Yang has over 13 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 then worked as a lawyer in Zhejiang Dingya Law Firm (浙江鼎亞律師事務所) from August 2014 to March 2018. Since March 2018, she has been a lawyer and the executive head of Zhejiang Zhong Xin Da Law Firm (浙江眾信達律師事務所).

**Mr. Liu Teng (劉騰)**, aged 51, was appointed as our independent non-executive Director on 4 December 2020 and 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 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 from August 2008 to October 2010. He then worked as an executive director in China Orient International Asset Management Limited from February 2012 to March 2015. From October 2015 to September 2018, he worked in China Universal Asset Management (Hong Kong) Company Limited with his last position held as a deputy chief executive officer.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this prospectus, each of our Directors confirms that (i) he/she did not hold any other positions or short positions in the Shares, underlying Shares, debentures of our Company and/or any associated corporation (with the meaning of Part XV of the SFO) as at the Latest Practicable Date; (ii) he/she had no other relationship with any Directors, senior management and/or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; (iii) he/she did not hold any directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas; and (iv) there are no other matters concerning our Director's appointments that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

### 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)	47	Chairman and executive Director	Overall management, decision-making and strategic planning	7 August 2008	N/A
Mr. Yu Kai (余凱)	50	Chief Executive Officer and executive Director	Assisting in overall management and strategic planning	1 October 2017	N/A
Mr. Song Jianliang (宋建良)	66	Dean of our four aesthetic medical institutions and executive Director	Assisting in overall management, strategic planning and managing our four aesthetic medical institutions	1 January 2008	N/A
Ms. Zhang Chunxiu (章春秀)	40	Chief Financial Officer	Overseeing our Group's financial matters	1 January 2006	N/A

**Ms. Zhang Chunxiu (章春秀)**, aged 40, 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 Shanghai Normal University (上海師範大學) in June 2000 and she subsequently obtained a Bachelor in Accounting from Hangzhou Dianzi University (杭州電子科技大學) in January 2009.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Zhang has over 14 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, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment and Guangzhou Yingjieshi, where she is responsible for overseeing the financial matters.

For biographical details of Mr. Fu Haishu, Mr. Yu Kai and Mr. Song Jianliang, see the paragraph headed “Executive Directors” above.

### COMPANY SECRETARY

**Mr. Chan Oi Fat (陳愛發)**, aged 42, was appointed as our company secretary on 27 November 2020.

Mr. Chan obtained his bachelor’s degree of business administration in accountancy from 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 12 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 until now, 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). From February 2018 until now, 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 chief financial officer in April 2019. From July 2020 until now, 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).

### BOARD COMMITTEES

We have established the following committees within our Board of Directors: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board of Directors and Rule 3.21 and Rule 3.25 of the Listing Rules.



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## DIRECTORS AND SENIOR MANAGEMENT

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### Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the paragraph C.3 of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules. The audit committee consists of three members, namely, Mr. Liu Teng, Mr. Cao Dequan and Ms. Yang Xiaofen. Mr. Liu Teng, with appropriate accounting and financial management expertise, is the chairman of the committee. 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 and perform further duties and responsibilities as assigned by our Board from time to time.

### Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, namely, Mr. Cao Dequan, Mr. Fu Haishu and Mr. Liu Teng. Mr. Cao Dequan is the chairman of the committee. 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.

### Nomination Committee

We have established a nomination committee with written terms of reference in compliance with the paragraph A.5 of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules. The nomination committee consists of three members, namely, Mr. Fu Haishu, Mr. Cao Dequan and Ms. Yang Xiaofen. Mr. Fu Haishu is the chairman of the committee. The primary duties of the nomination committee are to make recommendations to our Board in relation to the appointment and removal of Directors and senior management and on matters of succession planning.

### BOARD DIVERSITY POLICY

Our Company has adopted a board diversity policy, the purpose of which is to enhance the effectiveness of our Board and to maintain the highest standards of corporate governance and to recognise and embrace the benefits of diversity in our Board (the “**Board Diversity Policy**”). We will ensure that the members of our Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support our Group’s business strategy. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through consideration of various factors such as professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board. The existing members of our Board were appointed after taking into account the aforesaid factors. We will continue to apply the principle of

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## DIRECTORS AND SENIOR MANAGEMENT

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appointments based on merits with reference to the Board Diversity Policy as a whole. Our Board believes that such merit-based appointments will be in the best interest of our Company and its Shareholders as a whole.

In recognition of the particular importance of gender diversity, we are committed to promote gender diversity at our Company at all levels, including but without limitation, at our Board and senior management levels, to enhance the effectiveness of our corporate governance. We have taken, and will continue to take steps to promote gender diversity of our Company, including our appointment of one female non-executive Director, independent non-executive Director and senior management member, respectively. Subject to availability of experienced management personnel in our industry, we have also adopted measures to promote gender diversity in developing a pipeline of female senior management and potential successors to our Board in a few years' time, including putting gender diversity as a strategic priority when sourcing for our 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 our Group. As female representation in senior roles throughout the economy and the pool of qualified females keeps growing, we expect to have more female members who would be qualified to sit on our Board from time to time.

Our nomination committee is delegated to be responsible for compliance with relevant code governing Board diversity under the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules and, after Listing, will review the Board Diversity Policy from time to time to ensure its continued effectiveness. Our implementation of the Board Diversity Policy will be disclosed in our corporate governance report on annual bases.

### **CORPORATE GOVERNANCE CODE**

As at the Latest Practicable Date and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, our Directors are not aware of any deviation from provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

### **WAIVERS GRANTED BY THE STOCK EXCHANGE**

#### **Management Presence**

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules in relation to management presence in Hong Kong. See the section headed "Waivers from Strict Compliance with the Listing Rules" in this prospectus for further details.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPLIANCE ADVISER

We have appointed Innovax Capital as our compliance adviser upon the Listing pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use proceeds of the Global Offering in a manner different from that detailed in this prospectus;
- where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 in relation to unusual movements in the price regarding volume of our Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date, and such appointment may be subject to mutual agreement.

### REMUNERATION AND COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation from our Group in the form of fees, salaries, bonus, contributions to pension schemes, allowances and benefits in kind.

The aggregate remuneration (including fees, salaries, contributions to pension schemes, allowances, discretionary bonus paid, share-based payments other social security costs and other employee benefits) received by our Directors were approximately RMB1.6 million, RMB2.6 million, RMB2.7 million and RMB1.1 million for the three years ended 31 December 2019 and six months ended 30 June 2020, respectively.

The aggregate remuneration (including fees, salaries, contributions to pension schemes, allowances, discretionary bonus paid, share-based payments, other social security costs and other employee benefits) paid to our Company's five highest paid individuals, including directors, were approximately RMB4.8 million, RMB4.2 million, RMB5.4 million and RMB2.1 million for the three years ended 31 December 2019 and six months ended 30 June 2020, respectively.

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## DIRECTORS AND SENIOR MANAGEMENT

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Pursuant to the arrangements currently in force, the aggregate amount of remuneration (excluding discretionary bonus) payable to and the benefits in kind receivable by our Directors for the year ending 31 December 2020 is estimated to be RMB3.9 million.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable during the Track Record Period by our Group to our Directors.

### SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted pursuant to the written resolutions of our Shareholders passed on 4 December 2020. The purpose of the Share Option Scheme is to enable our Company to grant options to selected participants as incentives or rewards for their contribution to it. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. This will be in accordance with the Listing Rules and other relevant rules and regulations. See the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix V to this prospectus for further details.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 January 2018. As at the Latest Practicable Date, Mr. Fu, through Ruide BVI, his wholly owned offshore holding company, indirectly held approximately 64.78% of the total issued share capital of our Company.

Immediately following completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), Mr. Fu, through Ruide BVI, will be entitled to exercise voting rights of approximately 51.96% of the total issued share capital of our Company. Accordingly, Mr. Fu and Ruide BVI will continue to be our Controlling Shareholders upon the Listing.

### DELINEATION OF BUSINESS

Each of our Controlling Shareholders and Directors confirms that he/it does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholders and his/its close associates after the Listing.

#### Management Independence

Our Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. Although Mr. Fu is an executive Director and also a Controlling Shareholder, our management and operational decisions are made by all our executive Directors and senior management, most of whom have served our Group for a long time and all of whom have substantial experience in the industry in which we are engaged and/or in their respective fields of expertise. The balance of power and authority is ensured by the operation of the senior management and our Board. See the section headed “Directors and Senior Management” in this prospectus for further details.

Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he must act for the benefit of and in the best interests of our Company and does not allow any conflict between his duties as a director and his personal interests to exist. In addition, we believe that our independent non-executive Directors can bring independent judgment to the decision-making process of our Board.

Other than Mr. Fu, no any other director or member of our senior management holds any managerial position at any companies held by Mr. Fu which does not form part of our Group.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Based on the above, our Directors are satisfied that the Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently.

### **Operational Independence**

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and carry out, our own business operations independently. We have established our own organizational structure, and each department is assigned to specific areas of responsibilities. We are also in possession of all necessary relevant licenses, approvals and certificates to carry on our business and we have sufficient operational capacity in terms of capital and employees to operate and manage our business independently. We do not rely on our Controlling Shareholders or his/its close associates for our operations. We have independent access to suppliers, clients and an independent management team (including our Directors and senior management) to handle our daily operations. We have dedicated employees for our operations and management for human resources.

During the Track Record Period, Mr. Fu and Mr. Jin Chonghai, the brother of Mr. Fu's wife hold Handan Guangshu (formerly known as Handan Raily) as to 99% and 1%, respectively. Handan Guangshu is a special purpose vehicle and as at the Latest Practicable Date, it has not commenced business operation despite it was established using our trade name “瑞麗” free of charge. On 17 January 2020, its name was changed to Handan Guangshu.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after the Listing.

### **Financial Independence**

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control function of our Company, independent from our Controlling Shareholders. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. In addition, we have been and are capable of obtaining financing from Independent Third Parties without relying on any guarantee or security provided by our Controlling Shareholders or his/its close associates.

On 25 May 2018, Raily Beauty Consultation, Mr. Fu, Handan Guangshu, Raily HK and an Independent Third Party entered into a loan agreement pursuant to which Raily Beauty Consultation obtained borrowings in the amount of RMB33,330,000 from such Independent Third Party. To secure such borrowings, Mr. Fu provided personal guarantee along with a pledge by Handan Guangshu in its 10% equity interests in Raily Beauty Consultation. In August 2018, the pledge was fully discharged and, all the liabilities and debts arising from the loan have been transferred to Mr. Fu and as at the Latest Practicable Date, the sum has been fully settled.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Save for the above, as of the Latest Practicable Date, there were no loans, advances or balances due to and from our Controlling Shareholders and his/its close associates which have not been fully settled, nor were there any pledges and guarantees provided by any of our Controlling Shareholders and his/its close associates on our Group's borrowing which have not been fully released or discharged.

Based on the above, our Directors are satisfied that we are able to maintain financial independence from our Controlling Shareholders and his/its close associates.

### Corporate Governance Measures

Our Directors believe that there are adequate corporate governance measures in place to manage potential conflict of interest after the Listing. In particular, we will implement the following measures:

- (i) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;
- (ii) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the Board meetings on matters in which such Director or any of his close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (iii) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. See the section headed "Directors and Senior Management — Directors — Independent non-executive Directors" for further details of our independent non-executive Directors;
- (iv) our Controlling Shareholder(s) undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (v) in the event that our independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on one hand and our Controlling Shareholder and/or our Directors on the other, our Controlling Shareholder and/or our Directors shall provide our independent non-executive Directors with all necessary and our Company shall disclose the decisions of our independent non-executive Directors either through its annual report or by way of announcements; and
- (vi) we have appointed Innovax Capital as our compliance adviser, which will, upon our consultation, provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various Listing Rules requirements relating to directors' duties and corporate governance.

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## SUBSTANTIAL SHAREHOLDERS

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So far as our Directors are aware, immediately following completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), the following persons will have interests or short position in Shares or underlying Shares of our Company which would be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Shares held as at the Latest Practicable Date and prior to the Capitalization Issue and the Global Offering <sup>(1)</sup>		Shares held immediately following the completion of the Capitalization Issue and the Global Offering <sup>(1)</sup>	
		Number	Approximate percentage	Number	Approximate percentage
Ruide BVI	Beneficial owner	38,434	64.78%	1,109,283,463	53.98%
Mr. Fu <sup>(2)</sup>	Interest in a controlled corporation	38,434	64.78%	1,109,283,463	53.98%
Ms. Jin Chunmiao <sup>(3)</sup>	Interest of spouse	38,434	64.78%	1,109,283,463	53.98%
Beauty Milkway	Beneficial owner	4,474	7.54%	129,128,745	6.28%
Shanghai Donghua	Beneficial owner	3,889	6.55%	112,244,454	5.46%
Huamei Medical	Beneficial owner	3,889	6.55%	112,244,454	5.46%
Youxin Management	Beneficial owner	3,000	5.06%	86,586,104	4.21%
Success Concept	Beneficial owner	2,967	5.00%	85,633,658	4.17%

*Notes:*

- (1) All interests stated are long positions.
- (2) The entire issued share capital of Ruide BVI is wholly owned by Mr. Fu. Accordingly, Mr. Fu is deemed or taken to be interested in such number of Shares held by Ruide BVI.
- (3) Ms. Jin Chunmiao is the spouse of Mr. Fu and is therefore deemed under the SFO to be interested in the Shares held, directly or indirectly by Mr. Fu.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), have interests or short positions in Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and/or any of our subsidiaries.

## CORNERSTONE INVESTORS

### THE CORNERSTONE PLACING

We have entered into two cornerstone investment agreements (the “**Cornerstone Investment Agreements**” and each a “**Cornerstone Investment Agreement**”) with the Joint Global Coordinators, the Sole Sponsor and each of the two investors (the “**Cornerstone Investors**” and each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 10,000 Shares) which may be purchased for an aggregate amount of HK\$30,000,000 at the Offer Price (exclusive of the brokerage fee of 1%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) (the “**Cornerstone Placing**”). Our Company is of the view that, the Cornerstone Placing will help to raise the profile of our Company and to signify that such Cornerstone Investors have confidence in the business and prospects of our Group.

The table below sets forth a summary of further information on the investment made by each of the Cornerstone Investors and the number of the Shares to be subscribed for by them:

Name of the Cornerstone Investors	Assuming an Offer Price of HK\$0.40 (being the high-end of the indicative Offer Price range)						Assuming an Offer Price of HK\$0.35 (being the mid-point of the indicative Offer Price range)				Assuming an Offer Price of HK\$0.30 (being the low-end of the indicative Offer Price range)						
	Aggregate amount at the Offer Price (exclusive of the brokerage fee of 1%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%)		Total number of the Shares to be subscribed for	Approximate percentages of the Shares in issue immediately upon completion of		Total number of the Shares to be subscribed for	Approximate percentages of the Shares in issue immediately upon completion of		Total number of the Shares to be subscribed for	Approximate percentages of the Shares in issue immediately upon completion of							
			Assuming the Over- allotment Option is not exercised	Assuming the Over- allotment Option is fully exercised	Assuming the Over- allotment Option is not exercised	Assuming the Over- allotment Option is fully exercised			Assuming the Over- allotment Option is not exercised	Assuming the Over- allotment Option is fully exercised			Assuming the Over- allotment Option is not exercised	Assuming the Over- allotment Option is fully exercised			
	HK'000		%	%	%	%			%	%	%	%			%	%	
	Haohai Healthcare Holdings Co., Limited	20,000	50,000,000	14.6	12.7	2.4	2.4	57,140,000	16.7	14.5	2.8	2.7	66,660,000	19.5	16.9	3.2	3.2
	Tuyi HK Group Co., Limited	10,000	25,000,000	7.3	6.3	1.2	1.2	28,570,000	8.3	7.3	1.4	1.4	33,330,000	9.7	8.5	1.6	1.6
	Total	30,000	75,000,000	21.9	19.0	3.6	3.6	85,710,000	25.0	21.8	4.2	4.1	99,990,000	29.2	25.4	4.9	4.7

Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, nor will any of them become a substantial shareholder of our Company, and will not further subscribe any Offer Shares in the Global Offering. The Cornerstone Investors do not have any preferential rights compared with other public shareholders pursuant to the Cornerstone Investment Agreement. There are no side agreements/arrangement between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares following the principles as set out in the Guidance Letter HKEx-GL51-13 at the Offer Price.

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## CORNERSTONE INVESTORS

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Cornerstone Investors is an Independent Third Party, and is independent of each other, our Group, our connected person(s) and their respective associate(s) and are not an existing shareholder or close associate of our Group. None of the Cornerstone Investors are accustomed to take instructions from the Company, the Directors, the chief executive of the Company, the Controlling Shareholders, the substantial shareholders of the Company or the existing Shareholders or any of its subsidiaries or their respective close associates, in relation to the acquisition, disposal, voting or other disposition of the Offer Shares; and none of the subscription of the Offer Shares by the Cornerstone Investors is financed, directly or indirectly, by the Company, the Directors, the chief executive of the Company, the Controlling Shareholders, the substantial shareholders of the Company or the existing Shareholders or any of its subsidiaries or their respective close associates.

The Cornerstone Placing will form part of the International Placing. The Shares to be subscribed for by the Cornerstone Investors will be counted towards the public float of our Company and will rank *pari passu* with the Shares then in issue and to be listed on the Stock Exchange. The Offer Shares to be subscribed for by the Cornerstone Investors might be affected by any re-allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer described in the section headed "Structure of the Global Offering — Hong Kong Public Offering — Re-allocation" in this prospectus. If the total demand for Offer Shares in the Hong Kong Public Offering falls within the circumstance as set out in the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering — Re-allocation" in this prospectus, the number of Offer Shares under the International Placing may be deducted to satisfy the public demands under the Hong Kong Public Offering. Further, the Joint Global Coordinators and the Company can adjust the allocation of the number of Offer Shares to be subscribed by the Cornerstone Investors in their sole and absolute discretion for the purpose of satisfying Rule 8.08(3) of the Listing Rules which provides that no more than 50% of the Shares in public hands on the Listing Date can be beneficially owned by the three largest public shareholders. Details of the actual number of Shares to be allocated to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be issued by the Company on or around 24 December 2020.

There will be no delayed delivery of the Offer Shares and no deferred settlement arrangement for all of the Cornerstone Investors under the Cornerstone Investment Agreements. All Cornerstone Investors have agreed that they shall pay in full for the relevant Offer Shares to be subscribed for one business day before the Listing Date.

## **THE CORNERSTONE INVESTORS**

We set out below a brief description of the Cornerstone Investors, which has been provided by the respective Cornerstone Investors:

### **Haohai Healthcare Holdings Co., Limited (昊海生物科技控股有限公司) (“Haohai Healthcare”)**

Haohai Healthcare has agreed to subscribe at the Offer Price for such number of Shares (rounded down to the nearest whole board lot of 10,000 Shares) which may be purchased for an aggregate amount of HK\$20,000,000 at the Offer Price (exclusive of the brokerage fee of 1%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%).

Haohai Healthcare is a limited liability company established in Hong Kong on 17 July 2015. It mainly engages in investment and trading business and is a wholly owned subsidiary of Shanghai Haohai Biological Technology Co., Ltd. (“**Shanghai Haohai**”, together with its subsidiaries “**Haohai Group**”), a joint stock limited company established in the PRC and listed on the Main Board of the Stock Exchange (stock code: 6826) and Sci-Tech Innovation Board of the Shanghai Stock Exchange (stock code: 688366). Haohai Group is principally engaged in the manufacture and sale of biologicals, medical hyaluronate and ophthalmology products, research and development of biological engineering, pharmaceutical and ophthalmology products and the provision of related services.

The Company became acquainted with Shanghai Haohai in its ordinary course of business. As confirmed by Shanghai Haohai, its proposed investment in our Shares does not require any approval from its shareholders, the Shanghai Stock Exchange or the Stock Exchange.

To the best of the knowledge, information and belief of the Company and after making reasonable enquiries, Haohai Healthcare will fund its investment in our Shares using its internal resources.

### **Tuyi HK Group Co., Limited (“Tu Yi HK”)**

Tu Yi HK has agreed to subscribe at the Offer Price for such number of Shares (rounded down to rounded down to the nearest whole board lot of 10,000 Shares) which may be purchased for an aggregate amount of HK\$10,000,000 at the Offer Price (exclusive of the brokerage fee of 1%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%).

Tu Yi HK is a limited liability company incorporated in Hong Kong on 19 March 2018. It is an investment holding company and is a wholly-owned subsidiary of Tu Yi Holding Company Limited (“**Tu Yi Holding**”, together with its subsidiaries “**Tu Yi Group**”), an exempted company with limited liability incorporated under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock



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## CORNERSTONE INVESTORS

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Exchange (stock code: 1701). Tu Yi Group is principally engaged in, among others, the design, development and sale of outbound travel package tours and day tours and related sale of free independent traveller products.

Tu Yi Group was introduced to the Company by Innovax Securities and the Company did not have any relationship with Tu Yi Group prior to the introduction made by Innovax Securities. As confirmed by Tu Yi Holding, the investment in our Shares by Tu Yi HK does not require any approval from its shareholders or the Stock Exchange.

To the best of the knowledge, information and belief of the Company and after making reasonably enquiries, Tu Yi HK will fund its investment in our Shares using its internal resources.

### CONDITIONS PRECEDENT

The subscription obligation of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into, and having become effective and unconditional (in accordance with their respective terms) by no later than the time and date as respectively specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
- (b) neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (c) the Offer Price having been agreed upon between the Company and the Joint Global Coordinators;
- (d) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Shares (including the Offer Shares to be subscribed by the Cornerstone Investors) and such approval or permission not having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange;
- (e) no laws having been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated under the Cornerstone Investment Agreement, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, and there being no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (f) the respective representations, warranties and confirmations of the Cornerstone Investors under the relevant Cornerstone Investment Agreement being accurate and true and not misleading and that there is no material breach of the Cornerstone Investment Agreement on the part of the Cornerstone Investors.

## **RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS**

The Cornerstone Investors have agreed that,

- (i) it will not at any time, in the case of Haohai Healthcare being 12 months and in the case of Tu Yi HK being six months, following the Listing Date (the “**Lock-up Period**”) (a) offer, pledge, charge, sell, offer to sell, contract or agree to sell, mortgage, assign, lend, grant, create, transfer or otherwise dispose of any legal or beneficial interest (including by creation of or an agreement to create or sell or grant or agreeing to sell or grant any option or contract to purchase or any warrant or right or subscribe for, or to purchase or purchasing any option or contract to sell) in the Shares to be subscribed pursuant to the Cornerstone Investment Agreement (the “**Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Relevant Shares; (b) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership (including legal or beneficial) of the Relevant Shares or securities; (c) allow itself to undergo a change of control (as defined in the Takeovers Codes) at the level of its ultimate beneficial owner; (d) enter into any transaction with the same economic effect as any transaction described in paragraphs (a), (b) and (c) above including in relation to any interest in any company or entity holding any of the Relevant Shares; or (e) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraphs (a), (b), (c) and (d) above; and
- (ii) at any time after the expiry of the Lock-up Period, in the event that the Cornerstone Investors enter into, agree or contract to, or publicly announce an intention to enter into any transactions described in paragraphs (i) above, (a) it shall notify the Company, the Joint Global Coordinators and the Sole Sponsor in writing prior to entering into any such transactions; (b) it shall use its best endeavors to ensure that it will not create a disorderly or false market in the shares of the Company and comply with all applicable Laws and regulations and rules of securities exchanges of all competent jurisdictions including the Listing Rules, the Companies Ordinance, the Companies (WUMP) Ordinance and the SFO; and (c) it shall not allow itself to undergo a change of control (as defined in the Takeovers Codes) at the level of its ultimate beneficial owner.

Each of the Cornerstone Investors may transfer the Shares so subscribed to its wholly-owned subsidiary in certain limited circumstances, such as a written undertaking provided by such wholly-owned subsidiary prior to such transfer, in favour of our Company, the Joint Global Coordinators and the Sole Sponsor, that it will be bound by the obligations imposed on the relevant Cornerstone Investor under the Cornerstone Investment Agreement.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue as at the date of this prospectus and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised):

*Authorized share capital:*

		<i>US\$</i>	<i>Total Nominal Value</i>
<u>3,000,000,000</u>	Shares	<u>0.01</u>	<u>30,000,000</u>
<i>Shares issued and to be issued, fully paid or credited as fully paid:</i>			
<u>59,334</u>	Shares in issue as of the date of this prospectus		<u>593.34</u>
<u>1,712,440,666</u>	Shares to be issued pursuant to the Capitalization Issue		<u>17,124,406.66</u>
<u>342,500,000</u>	Shares to be issued pursuant to the Global Offering		<u>3,425,000</u>
<u>2,055,000,000</u>	Total Shares issued and to be issued upon completion of the Capitalization Issue and the Global Offering		<u>20,550,000</u>

### ASSUMPTIONS

The above table assumes that the Capitalization Issue and the Global Offering becomes unconditional and the issue of Shares pursuant thereto is made as described herein. The above table does not take into account any Shares to be issued upon the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, at least 25% of the total issued share capital of our Company shall be held by the public (as defined in the Listing Rules). Taking into account our Shares held by the existing Shareholders of the Company and our Shares to be issued pursuant to the Global Offering, our Directors are of the view that our Company will be able to satisfy the public float requirement under Rule 8.08 of the Listing Rules.

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## SHARE CAPITAL

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### RANKING

The Shares will be ordinary shares in the share capital of our Company and will rank *pari passu* with all Shares currently issued or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

### SHARE OPTION SCHEME

Pursuant to the written resolutions of our Shareholders dated 4 December 2020, we conditionally adopted the Share Option Scheme. See “D. Other information — 1. Share Option Scheme” in Appendix V of this prospectus for details of the principal terms of the Share Option Scheme.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Companies Act and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary shareholders’ resolution (i) increase its capital; (ii) consolidate and divide our Share capital into Shares of larger or smaller amount; (iii) divide our unissued Shares into classes; (iv) subdivide our Shares into Shares of smaller amount than is fixed by memorandum and Articles of Association; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to sanction by the courts in the Cayman Islands, reduce our share capital by shareholders’ special resolution. See “Summary of the Constitution of our Company and Cayman Companies Act — 2. Articles of Association — 2.1 Shares — (c) Alteration of capital” in Appendix IV in this prospectus.

### GENERAL MANDATE TO ALLOT AND ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares of such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of our Shares allotted or agreed to be allotted by our Directors other than pursuant to:

- (i) a rights issue;
- (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association;

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## SHARE CAPITAL

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(iii) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (i) 20% of the total number of issued shares immediately following completion of the Capitalization Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-Allotment Option); and
- (ii) the aggregate number of Shares repurchased pursuant to the authority granted to our Directors referred to in “General Mandate to Repurchase Shares” in this section below.

This general mandate to issue Shares will expire at the earliest of:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

See “Statutory and General Information — A. Further Information about our Group” in Appendix V to this prospectus for further details of this general mandate.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering”, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be issued upon the Over-allotment Option).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange of this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Statutory and General Information — A. Further Information about our Group” in Appendix V in this prospectus.

This general mandate to repurchase Shares will expire at the earliest of:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or

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## SHARE CAPITAL

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- (iii) when varied or revoked by any ordinary resolution of our Shareholder in general meeting.

See “Statutory and General Information — A. Further Information about our Group” in Appendix V to this prospectus for further details of this general mandate.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Companies Act and the terms of the Memorandum of Association and the Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) subdivide its Shares into Shares of smaller amount; and (iv) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Act, reduce its share capital or capital redemption reserve by its shareholders passing special resolution. See the section headed “Summary of the Constitution of our Company and Cayman Companies Act — 2. Articles of Association — (c) Alteration of capital” in Appendix IV to this prospectus.



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## FINANCIAL INFORMATION

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

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

### OVERVIEW

We are a leading aesthetic medical service provider in Zhejiang Province, the PRC. We offer a broad range of aesthetic medical services to our clients to meet their different aesthetic and anti-aging objectives. 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; and (iii) aesthetic dermatology services, primarily comprising various aesthetic energy-based procedures.

We have grown our network since our operation commenced in August 2008. As at the Latest Practicable Date, we owned and operated a network of four private for-profit aesthetic medical institutions in the PRC, while three of them were located in Zhejiang Province and one of them was located in Anhui Province. All of our aesthetic medical institutions are operated under our trade names, “瑞麗” and “瑞麗整形”, together with our registered trademark “Raily”. According to the Frost & Sullivan Report, our Group ranked fourth and fifth in terms of aesthetic medical service revenue in 2019 among all private aesthetic medical service providers in Hangzhou City and Zhejiang Province, respectively.

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## FINANCIAL INFORMATION

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We recorded significant growth during the three years ended 31 December 2019. Our revenue increased by RMB46.0 million or 40.7%, from approximately RMB112.9 million for the year ended 31 December 2017 to approximately RMB158.9 million for the year ended 31 December 2018, and further by RMB32.3 million or 20.3% to approximately RMB191.2 million for the year ended 31 December 2019. Our profits and total comprehensive income for the year amounted to approximately RMB17.4 million, RMB18.4 million and RMB10.3 million for the three years ended 31 December 2019, respectively. Due to the temporary suspension of our aesthetic medical institutions during the first half of 2020, our revenue decreased from approximately RMB92.1 million for the six months ended 30 June 2019 to approximately RMB58.7 million for the six months ended 30 June 2020. With the reduced client flow and the listing expenses of RMB9.7 million, our Group recorded loss for the six months ended 30 June 2020 of approximately RMB11.8 million.

### **BASIS OF PRESENTATION**

Our Company was incorporated in the Cayman Islands as a limited liability company on 2 January 2018. Subsequent to the Reorganization, our Company became the holding company of the companies now comprising our Group, details of which are set out in the section headed “History and Reorganization” in this prospectus.

The historical financial information has been prepared in accordance with the IFRSs and the International Accounting Standards (“IASs”) approved by the International Accounting Standards Board (the “IASB”) on the basis set out in Note 2.2 to the Accountants’ Report contained in Appendix I to this prospectus.

### **APPLICATION OF IFRS 9, IFRS 15 AND IFRS 16**

All IFRSs effective for the accounting period commencing from 1 January 2019, including IFRS 9, “Financial instruments” (“**IFRS 9**”), IFRS 15, “Revenue from contracts with customers” (“**IFRS 15**”) and IFRS16, “Leases” (“**IFRS 16**”), together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the historical financial information and applied consistently throughout the Track Record Period.

Given that the Track Record Period spans from 1 January 2017 to 31 December 2019, by which time IFRS 9, IFRS 15 and IFRS 16 would be mandatorily applied, we have adopted IFRS 9, IFRS 15 and IFRS 16 in lieu of IAS 39 “Financial Instruments: Recognition and Measurement” (“**IAS 39**”), IAS 18 “Revenue” (“**IAS 18**”) and IAS 17 “Leases” (“**IAS 17**”) in the preparation of our historical financial statements, such that our historical financial information prepared under IFRS 9, IFRS 15 and IFRS 16 is comparable on a period-to-period basis.

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## FINANCIAL INFORMATION

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The impacts of the adoption of these new standards were made by assessing the related matters that would be treated differently under the old and new standards. According to the assessment, IFRS 9 and IFRS 15 has no significant impact on our financial position and performance during the Track Record Period compared to IAS 39 and IAS 18. Adoption of IFRS 16 has a significant impact on our financial position as compared to IAS 17 and the impact is demonstrated below.

Leases — Under IAS 17, operating lease commitments are disclosed in a note to the financial statement and are not recognised in statement of financial position. Under IFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognised in the form of assets (being the right-of-use assets in our financial statements) and financial liabilities (being the lease liabilities in our financial statements).

The table sets forth below summarised the impacts of the adoption of IFRS 16 on certain key items of our consolidated financial statements for illustrative purposes:

	Currently reported under IFRS 16 (a)	As if reported under IAS 17 (b)	Difference (a) – (b)
Profit/(loss) for the year/period	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
— For the year ended 31 December 2017	17,405	17,163	242
— For the year ended 31 December 2018	18,418	18,462	(44)
— For the year ended 31 December 2019	10,277	11,421	(1,144)
— For the six months ended 30 June 2020	(11,777)	(10,106)	(1,671)
Total assets	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
— For the year ended 31 December 2017	82,097	68,122	13,975
— For the year ended 31 December 2018	117,836	91,776	26,060
— For the year ended 31 December 2019	183,133	158,745	24,388
— For the six months ended 30 June 2020	171,798	151,481	20,317
Total liabilities	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
— For the year ended 31 December 2017	66,430	51,095	15,335
— For the year ended 31 December 2018	102,846	75,470	27,376
— For the year ended 31 December 2019	89,858	63,010	26,848
— For the six months ended 30 June 2020	90,369	66,450	23,919
Net assets	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
— For the year ended 31 December 2017	15,667	17,027	(1,360)
— For the year ended 31 December 2018	14,990	16,306	(1,316)
— For the year ended 31 December 2019	93,275	95,735	(2,460)
— For the six months ended 30 June 2020	81,429	85,032	(3,601)

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	Currently reported under IFRS 16 (a)	As if reported under IAS 17 (b)	Difference (a) – (b)
Gearing ratio	%	%	%
— For the year ended 31 December 2017	97.4	—	97.4
— For the year ended 31 December 2018	181.2	—	181.2
— For the year ended 31 December 2019	35.7	7.3	28.5
— For the six months ended 30 June 2020	48.2	17.5	30.7
Current ratio	%	%	%
— For the year ended 31 December 2017	0.6	0.6	—
— For the year ended 31 December 2018	0.5	0.6	(0.1)
— For the year ended 31 December 2019	1.3	1.5	(0.2)
— For the six months ended 30 June 2020	1.2	1.3	(0.2)
Quick ratio	%	%	%
— For the year ended 31 December 2017	0.5	0.6	—
— For the year ended 31 December 2018	0.5	0.5	(0.1)
— For the year ended 31 December 2019	1.2	1.4	(0.2)
— For the six months ended 30 June 2020	1.1	1.2	(0.2)

For other new and revised financial reporting standards that have been issued and are not yet effective nor early adopted, please refer to Note 2.3 to the Accountants' Report set out in Appendix I to this prospectus.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates refer to those accounting policies and estimates that entail significant uncertainty and judgement, and could yield materially different results under different conditions and/or assumptions. The preparation of the financial information in conformity with IFRSs and IASs requires our management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The methods and approach that we use in determining these items are based on our experience, the nature of our business operations, the relevant rules and regulations and the relevant circumstances. These underlying assumptions and estimates are reviewed regularly as they may have a significant impact on our operational results as reported in our consolidated financial statements included elsewhere in this prospectus.

The significant accounting policies, judgements and estimates are set forth in Note 2.4 to the Accountants' Report set out in Appendix I to this prospectus. Of all the significant accounting policies, judgements and estimates, those that are the most critical in preparing our Group's consolidated financial statements include (a) business combination and goodwill; (b) fair value measurement; (c) property, plant and equipment and depreciation; (d) intangible assets (other than goodwill); (e) leases; and (f) revenue recognition. Our

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Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results during the Track Record Period and that we have consistently applied these estimates or underlying assumptions during the Track Record Period. We will continuously assess our assumptions and estimates going forward.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by a number of factors, many of which operate beyond our control. Please refer to the section headed “Risk Factors” in the prospectus for more details. Some of these factors are described below.

#### **Demands for our aesthetic medical services is largely dependent on the growth of aesthetic medical service market in China and market acceptance of aesthetic medical services in China**

Our business performance depends on the sustainable growth of consumer spending on aesthetic medical services. According to the Frost & Sullivan Report, the total revenue of the aesthetic medical service market in China grew at a CAGR of 22.5% from 2015 to 2019 and such momentum is expected to continue from 2019 to 2024 at a CAGR of 17.3%. Please see “Industry Overview — Overview of the PRC Aesthetic Medical Service Market — Market Size.” As a private aesthetic medical institution group in China, we are well positioned to capture future growth opportunities in the fast growing aesthetic medical service market in China. Conversely, a slowdown of the aesthetic medical service market in China may adversely affect our results of operations.

The growth of the aesthetic medical service market in China has depended and will continue to depend, in part, on the market acceptance of aesthetic medical services by the general public in China. Up until fairly recently, we believe there was relatively limited knowledge among the general public in China regarding the spectrum and the process of aesthetic medical services. However, we believe aesthetic medical services have gained popularity in recent years due to increased safety and effectiveness, reduced recovery time and generally greater publicity of the industry in the media. On the other hand, many consumers are generally cautious about the risks inherent in aesthetic medical treatments. Therefore, any shift caused by media influences, peer perceptions, research indicating adverse health effects of aesthetic medical procedures, any medical incidents in the industry or otherwise could lead to deterioration in market perception towards and less demand for aesthetic medical services.

#### **Number of aesthetic medical procedures performed and number of clients**

The revenue generated from our aesthetic medical services, which accounted for the majority of our revenue during the Track Record Period, was a function of the number of procedures performed. The number of medical aesthetic procedures performed is generally affected by:

- market demand for existing and newly introduced procedures;
- the opening and acquisition of new aesthetic medical institutions;

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- our brand reputation and promotion and marketing efforts; and
- growth of client base as a result of the foregoing and our ability to cross sell.

Among the aesthetic medical procedures, the number of minimally-invasive aesthetic procedures and aesthetic dermatology procedures is also affected by:

- redirected demand formerly satisfied through aesthetic surgical procedures;
- recurring nature of these procedures; and
- timing and number of newly introduced injection materials and energy-based devices.

We are a private for-profit medical institution group and none of our medical institutions is a “medical insurance designated medical institution” (醫保定點醫療機構), our service fees are not subject to the pricing guidelines for reimbursement set by the relevant local healthcare insurance authorities in the PRC. We are generally entitled to set the prices of our services at our discretion, subject to market conditions and competitors’ pricing of similar services. Please see “Business — Pricing Policy.” If we are unable to attract and maintain clients which may result in lower number of aesthetic medical procedures performed, or unable to stay competitive or compete successfully with our competitors, we may experience a reduction of market share and significant decrease in the volume of client visits at our aesthetic medical institutions, and our brand image and reputation could be forgotten, which could adversely affect our business, financial condition and results of operations.

### **Expansion of our aesthetic medical institution network**

From 2013 to 2015, we established three aesthetic medical institutions in Hangzhou City, Ruian City and Wuhu City. Based on our previous operating experience and current market condition (without taking into account the impact or potential impact of the occurrence of any natural disasters, acts of God or pandemics, including COVID-19), it generally takes approximately 21 months for a new aesthetic medical institution to breakeven on average and approximately 47 months to recover the initial investment on average. However, the breakeven periods and the investment payback periods may be affected by the specific characteristics of an aesthetic medical institution, such as its size, location, initial investment, the coverage of its services and the competitive landscape. As at 30 June 2020, all of our four aesthetic medical institutions had recovered their initial investments. For details of the breakeven and investment payback periods of our aesthetic medical institution, please refer to the section headed “Business — Our Aesthetic Medical Institutions — Breakeven and investment periods” in this prospectus.



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While we can adjust our pricing and promotional strategy to increase our profitability, our business development and profitability is limited by the service capacity of our aesthetic medical institutions. Therefore, if we are able to attract sufficient clients, a larger network of aesthetic medical institution will contribute positively to our profitability. However, our progress in acquiring or establishing new aesthetic medical institutions from period to period may occur at an uneven rate. Further, a new aesthetic medical institution generally has lower income and higher operating costs during the initial stages of its operation. As a result, our profitability may fluctuate from period to period.

### **Our service mix**

Our overall gross profit margin is affected by our service mix, due to considerable differences among the gross profit margins of our service offerings. During the Track Record Period, we experienced variation in the gross profit margins of our key service offerings, as well as in the different proportionate contributions of each key service offering to our total revenue. The gross profit margin of our aesthetic surgery services is generally the highest among our key service offerings, while that of our minimally-invasive aesthetic services is generally the lowest among our key service offerings. Since December 2017, our Group began to offer aesthetic medical management consulting services which also have a comparatively lower gross profit margin. Please refer to the section headed “Financial Information — Principal Components of our Results of Operations — Gross profit” in this prospectus. Our overall gross margin will be negatively affected if we derive more of our revenue from services of relatively lower gross margin. We expect our future gross profit margin will continue to be influenced by our service mix and the respective gross profit margin of our key service offerings.

### **Pricing of our services**

We price our aesthetic medical services based on certain factors, including market conditions, positioning of our aesthetic medical institutions, complexity of the procedure, brands and types of implants, injection materials or other consumables used for the procedure, if any, the seniority of physicians involved, local market conditions and competitors’ pricing of similar services. Our management would periodically review our pricing policy to ensure the competitiveness of our fees and maintain our profitability. If we fail to adjust our pricing policy to adapt to changes to the market in a timely manner, our results of operations and financial performance could be materially and adversely affected.

### **Ability to control our costs and expenses**

Our principal supplies include implants, injection materials, skincare products, pharmaceuticals and other medical consumables. Our cost of supplies consumed, which was the main component of our cost of sales, accounted for approximately 50.5%, 51.6%, 52.5% and 55.8% of our total cost of sales for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively.

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The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in our cost of supplies consumed on our profit before tax during the Track Record Period.

(Decrease)/ increase in percentage	2017		Year ended 31 December 2018		2019		Six months ended 30 June 2020	
	Increase/ (decrease) in profit before tax	Profit before tax	Increase/ (decrease) in profit before tax	Profit before tax	Increase/ (decrease) in profit before tax	Profit before tax	Increase/ (decrease) in profit before tax	Profit before tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
-20%	3,876	27,208	6,856	33,239	9,465	25,853	3,848	(8,504)
-15%	2,907	26,239	5,142	31,525	7,099	23,487	2,886	(9,466)
-10%	1,938	25,270	3,428	29,811	4,733	21,121	1,924	(10,428)
-5%	969	24,301	1,714	28,097	2,366	18,754	962	(11,390)
0%	—	23,332	—	26,383	—	16,388	—	(12,352)
+ 5%	(969)	22,363	(1,714)	24,669	(2,366)	14,022	(962)	(13,314)
+ 10%	(1,938)	21,394	(3,428)	22,955	(4,733)	11,655	(1,924)	(14,276)
+ 15%	(2,907)	20,425	(5,142)	21,241	(7,099)	9,289	(2,886)	(15,238)
+ 20%	(3,876)	19,456	(6,856)	19,527	(9,465)	6,923	(3,848)	(16,200)

For illustrative purposes, for the three years ended 31 December 2019 and the six months ended 30 June 2020, it is estimated that we would achieve breakeven on our profit before tax if our cost of supplies consumed increased by approximately 1.2 times, 77.0%, 34.6% and decreased by 64.2% respectively, with all other variables remaining constant.

Our total staff costs comprised staff costs, including directors' and chief executive's remuneration, incurred in our cost of sales, selling and distribution expenses and administrative expenses. Our total staff costs amounted to approximately RMB38.1 million, RMB50.0 million, RMB66.4 million and RMB26.0 million for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively.

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The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in our total staff costs on our profit before tax during the Track Record Period.

(Decrease)/ increase in percentage	2017		Year ended 31 December 2018		2019		Six months ended 30 June 2020	
	Increase/ (decrease) in profit before tax RMB'000	Profit before tax RMB'000	Increase/ (decrease) in profit before tax RMB'000	Profit before tax RMB'000	Increase/ (decrease) in profit before tax RMB'000	Profit before tax RMB'000	Increase/ (decrease) in profit before tax RMB'000	Profit before tax RMB'000
-20%	7,628	30,960	9,990	36,373	13,287	29,675	5,202	(7,150)
-15%	5,721	29,053	7,493	33,876	9,966	26,854	3,902	(8,450)
-10%	3,814	27,146	4,995	31,378	6,644	23,032	2,601	(9,751)
-5%	1,907	25,239	2,498	28,881	3,322	19,710	1,301	(11,051)
0%	—	23,332	—	26,383	—	16,388	—	(12,352)
+ 5%	(1,907)	21,425	(2,498)	23,885	(3,322)	13,066	(1,301)	(13,653)
+ 10%	(3,814)	19,518	(4,995)	21,388	(6,644)	9,744	(2,601)	(14,953)
+ 15%	(5,721)	17,611	(7,493)	18,890	(9,966)	6,422	(3,902)	(16,254)
+ 20%	(7,628)	15,704	(9,990)	16,393	(13,287)	3,101	(5,202)	(17,554)

For illustrative purposes, for the three years ended 31 December 2019 and the six months ended 30 June 2020, it is estimated that we would achieve breakeven on our profit before tax if our total staff costs increased by approximately 61.2%, 52.8%, 24.7% and decreased by 47.5% respectively, with all other variables remaining constant.

We in general aim to pass on increase in our costs of sales to our clients by adjusting the price of our services. If we are not able to pass on any increase in our costs, fully or partially, to our clients, our business, results of operations, financial condition and development prospects may be materially and adversely affected.

### Our brand awareness and client satisfaction

We are committed to providing high-quality and safe aesthetic medical services and offering a superior client experience through our team of high-caliber medical professionals, stringent safety controls and one-stop, tailor-made aesthetic medical services. Our high quality of our client experience is evidenced by high ratings and reviews in our online shops at several leading third party platforms. Our high-quality and safe services is also evidenced by our accreditation by the CAPA. In 2018, Hangzhou Raily was awarded as a “5A” institution by the CAPA.

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In order to enhance public recognition of our brand and services in both existing and new markets and to attract new clients and retain our existing clients, we have implemented effective branding strategies, which have enabled us to build a broad and loyal client base. Our promotion and marketing expenses amounted to approximately RMB15.1 million, RMB22.7 million, RMB23.3 million and RMB6.9 million for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. The effectiveness of our promotion and marketing efforts has a direct impact on our revenue and profitability. Both the number of new and repeat clients increased during the Track Record Period. For the three years ended 31 December 2019 and the six months ended 30 June 2020, we had approximately 14,059, 25,230, 34,106 and 13,928 new clients; and approximately 15,172, 22,555, 35,729 and 17,152 repeat clients respectively. However, if we fail to manage our clients' expectations of the consequences of our treatment properly, a discontented client may request refunds, complain on the Internet or media, or to his/her peers, or file legal claim against us. Such actions from a discontented client may materially and adversely affect our brand image and cause deterioration in the level of trust in our services and products, thereby resulting in reduced sales and potential loss of clients.

### **Advances in aesthetic medical technology**

During the Track Record Period, aesthetic medical technology advanced quickly and is expected to continue to evolve as new procedures and devices emerge. Our ability to retain and attract clients and, in turn, our ability to generate revenue have been, and are expected to continue to be, affected by our ability to provide available new aesthetic medical services and enhance our existing services derived from development in technology. Moreover, advances in technology may further reduce potential risks associated with aesthetic medical services, thereby increasing the popularity of aesthetic medical services among consumers. We have active dialogues and exchanges of information with leading medical professional and aesthetic medical equipment suppliers in China, as well as the aesthetic medical equipment suppliers in South Korea, the United States, the United Kingdom, Israel, Italy, India and France, to learn about the latest developments in the aesthetic medical industry. Our ability to continuously adopt the latest technologies and quickly as well as cost-efficiently respond to our clients' ever changing preferences has a direct effect on our financial condition and results of operations.

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### RESULT OF OPERATIONS

The following table sets forth our consolidated statements of profit or loss and other comprehensive income during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenue</b>	112,932	158,935	191,156	92,081	58,730
Cost of sales	<u>(38,390)</u>	<u>(66,442)</u>	<u>(90,118)</u>	<u>(44,907)</u>	<u>(34,444)</u>
<b>Gross profit</b>	74,542	92,493	101,038	47,174	24,286
Other income and gains	65	592	1,626	1,008	1,090
Selling and distribution expenses	(37,020)	(44,667)	(50,172)	(26,502)	(15,126)
Administrative expenses	(12,392)	(18,489)	(33,405)	(15,614)	(20,289)
Finance costs	(1,361)	(3,291)	(2,336)	(1,182)	(1,208)
Other expenses	<u>(502)</u>	<u>(255)</u>	<u>(363)</u>	<u>(94)</u>	<u>(1,105)</u>
<b>Profit/(loss) before tax</b>	<u>23,332</u>	<u>26,383</u>	<u>16,388</u>	<u>4,790</u>	<u>(12,352)</u>
Income tax (expense)/credit	<u>(5,927)</u>	<u>(7,965)</u>	<u>(6,111)</u>	<u>(2,582)</u>	<u>575</u>
<b>Profit/(loss) for the year/period</b>	<u>17,405</u>	<u>18,418</u>	<u>10,277</u>	<u>2,208</u>	<u>(11,777)</u>
Attributable to:					
Owners of the parent	17,379	17,855	9,897	2,198	(12,000)
Non-controlling interests	<u>26</u>	<u>563</u>	<u>380</u>	<u>10</u>	<u>223</u>
	<u>17,405</u>	<u>18,418</u>	<u>10,277</u>	<u>2,208</u>	<u>(11,777)</u>
Other Comprehensive income					
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:					
Equity investment designated at fair value through other comprehensive income:					
Change in fair value	—	—	—	—	(92)
Income tax effect	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23</u>
Other comprehensive loss for the year/period, net of tax	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(69)</u>
<b>Total comprehensive income/(loss) for the year/(period)</b>	<u>17,405</u>	<u>18,418</u>	<u>10,277</u>	<u>2,208</u>	<u>(11,846)</u>

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### Non-IFRS measures

We recognised non-recurring items in the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also present the adjusted profit/loss before tax, adjusted profit/loss for the year and adjusted net profit margin as non-IFRS measures.

We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring listing expenses, which is considered not indicative for evaluation of the actual performance of our business. We believe that these non-IFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) before tax	23,332	26,383	16,388	4,790	(12,352)
Profit/(loss) for the year/period	17,405	18,418	10,277	2,208	(11,777)
Adjusted for:					
— Listing expenses	—	2,349	15,316	7,392	9,727
Adjusted profit/(loss) before tax	23,332	28,732	31,704	12,182	(2,625)
Adjusted profit/(loss) for the year/period	17,405	20,767	25,593	9,600	(2,050)
Adjusted net profit/(loss) margin for the year/period	15.4%	13.1%	13.4%	10.4%	(3.5%)

Although these financial measures are reconcilable to the line items in the consolidated financial statements, they should not be considered measures comparable to items in the consolidated financial statements in accordance with the IFRS. These measures may not be comparable to other similarly titled measures used by other companies.

### PRINCIPAL COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Revenue

During the Track Record Period, 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 eyelids, nose, breast and facial shape; (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



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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.

To a lesser extent, we also provide aesthetic medical management consulting services beginning from December 2017. Leveraging our years of experience in managing aesthetic medical institutions and our expertise in sales and marketing of aesthetic medical services, we provide consulting services to third parties aesthetic medical institutions in relation primarily to their operations and administration, and sales and marketing; and third parties physicians in relation primarily to their professional biography building, sales and marketing as well as operation and administration of their aesthetic medical business. Such services do not involve any authorization of using our trade name or our intellectual property rights.

### Revenue by Service Offerings

The following table sets forth our revenue by service offerings during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Revenue RMB'000	% of total revenue %	Revenue RMB'000	% of total revenue %	Revenue RMB'000	% of total revenue %	Revenue RMB'000	% of total revenue %	Revenue RMB'000	% of total revenue %
Aesthetic medical services	112,932	100.0	146,256	92.0	183,609	96.1	88,699	96.3	57,476	97.9
Aesthetic surgery services	56,685	50.2	57,530	36.2	54,996	28.8	28,547	31.0	14,384	24.5
Minimally-invasive aesthetic services	28,854	25.5	40,310	25.4	55,942	29.3	26,176	28.4	20,196	34.4
Aesthetic dermatology services	24,011	21.3	41,768	26.3	58,092	30.4	25,798	28.0	18,417	31.4
Others (Note)	3,382	3.0	6,648	4.1	14,579	7.6	8,178	8.9	4,479	7.6
<b>Aesthetic medical management consulting services</b>	<b>—</b>	<b>—</b>	<b>12,679</b>	<b>8.0</b>	<b>7,547</b>	<b>3.9</b>	<b>3,382</b>	<b>3.7</b>	<b>1,254</b>	<b>2.1</b>
	<u>112,932</u>	<u>100.0</u>	<u>158,935</u>	<u>100.0</u>	<u>191,156</u>	<u>100.0</u>	<u>92,081</u>	<u>100.0</u>	<u>58,730</u>	<u>100.0</u>

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

For the two years ended 31 December 2018, aesthetic surgery services was the largest contributor to our total revenue at approximately 50.2% and 36.2%, respectively. While the revenue continued to increase, the proportion of aesthetic surgery services to our total revenue decreased gradually during the Track Record Period and the revenue generated decreased for the year ended 31 December 2019, which was mainly because of (i) the continuous innovation and technological developments of the aesthetic medical industry in recent years, which significantly lowered the medical risk of non-surgical aesthetic procedures and shortened the recovery time, compared with aesthetic surgery services. As such, certain aesthetic surgery services such as changing the shape of the nose and wrinkle reduction may be replaced by minimally-invasive aesthetic procedures by injection of

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botulinum toxin type A and dermal fillers; (ii) the decreasing prices of our aesthetic surgery services due to our pricing strategy to enhance competitiveness of our services; (iii) the introduction of new medical equipment for the provision of aesthetic dermatology services; (iv) the different proportion of types of surgery performed. The majority of aesthetic surgery revenue was derived from eye surgery and rhinoplasty in 2017, the proportion of these types of surgery gradually reduced during the Track Record Period as certain effects of these surgeries can be replaced by minimally-invasive aesthetic services. Instead, the proportion of lipoplasty and fat transfer surgery procedures, which were lower in terms of price range compared with rhinoplasty, increased in subsequent years. The contribution of aesthetic surgery services to our revenue dropped to approximately 28.8% in 2019.

For the six months ended 30 June 2020, the proportion of our aesthetic surgery services continued to decrease to approximately 24.5%. In addition to the aforementioned reasons, the decrease was also due to (i) the temporary suspension of Raily Tiange's aesthetic surgery services from May 2020 to June 2020 as a result of the accidental sewage piping leakage in proximity of operation rooms in Raily Tiange; and (ii) the COVID-19 pandemic which severely and adversely affected our clients' overall willingness to visit our aesthetic medical institutions and the general consumer spending sentiment in aesthetic medical services. In particular, high spending clients of aesthetic surgery services would require testing of COVID-19 before operations as part of the preventive measures to minimize the risk of infection by our clients and staff. Also, clients of aesthetic surgery services generally stay in aesthetic medical institutions for longer period of time and would require more frequent visits to the institutions compared to other aesthetic medical services to undergo necessary procedures including consultations, various testings before the operation and the operation itself, thereby increasing their exposure and potential risks of infection during the pandemic.

Although minimally-invasive aesthetic services may be an alternative to certain aesthetic surgery services, the aesthetic effect of aesthetic injection procedures only lasts for a limited period of time, usually less than one year, and varies depending on the injection materials and clients' physical conditions. Therefore, many clients return for repeated procedures subsequently when the effects of their own previous procedures require upkeep. As such, revenue derived from minimally-invasive aesthetic services is subject to more repeat clients as compared to the revenue derived from aesthetic surgery services. During the three years ended 31 December 2019, we recorded significant growth of approximately 39.7% and 38.8% in minimally-invasive aesthetic services, respectively.

Since (i) the aesthetic effect of minimally-invasive procedures only lasts for a limited period of time and repeated procedures are usually required for the upkeep of the aesthetic effect; (ii) the relatively shorter treatment time required for the completion of minimally-invasive procedures, compared to aesthetic surgery services and aesthetic dermatology services; and (iii) there are no alternative self-administered procedures which clients can perform at home to achieve aesthetic results close to that of minimally-invasive procedures, clients of minimally-invasive procedures would be apt to visit aesthetic medical institutions in person to receive minimally-invasive procedures even under the impact of the outbreak of COVID-19 with reduced social activities. Therefore, the outbreak of COVID-19 has a relatively smaller impact on minimally-invasive procedures, comparing with other aesthetic medical procedures. Hence, minimally-invasive services became the largest contributor of revenue to our total revenue at approximately 34.4% for the six months ended 30 June 2020.

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Benefited from (i) the growing social acceptance of aesthetic medical services; and (ii) our effective online marketing campaign promoting our aesthetic medical services to young females, our revenue from aesthetic dermatology services also recorded significant growth of approximately 74.0% and 39.1% during the three years ended 31 December 2019, respectively. Also adversely affected by the temporary suspension of operations due to the COVID-19 pandemic, aesthetic dermatology services recorded a 28.6% decrease in revenue for the six months ended 30 June 2020, comparing with the same period in 2019.

In view of the decreasing revenue contribution of aesthetic surgery services as a percentage to our total revenue during the Track Record Period, our Group has adopted the following strategies in order to improve revenue contribution from aesthetic surgery services: (i) focusing on cross-selling aesthetic medical services, and in particular aesthetic surgery services, to our existing clients, by enhancing trainings to our frontline and sales staff on the techniques of cross-selling; (ii) enhancing the expertise and skills of our aesthetic surgery services team by recruiting experienced physicians and expanding the scope of aesthetic surgery service offerings to include new procedures such as jaw slimming procedures; and (iii) continuing our online advertising and marketing efforts to target potential clients for our aesthetic surgery services.

Our revenue generated from our aesthetic medical services is primarily driven by the number of procedures performed in the relevant periods. The following table sets forth the number of our aesthetic medical services provided, the average spending per procedure, the number of active clients and the average spending per active client during our Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
<b>Aesthetic surgery services</b>					
Number of procedures performed	4,837	7,318	8,280	4,219	2,275
Average spending per procedure (RMB)	11,719	7,861	6,642	6,766	6,323
Number of active clients	3,297	4,729	5,184	2,607	1,539
Average spending per active client (RMB)	17,193	12,165	10,609	10,950	9,346
<b>Minimally-invasive aesthetic services</b>					
Number of procedures performed	22,595	44,948	55,773	22,594	21,492
Average spending per procedure (RMB)	1,277	897	1,003	1,159	940
Number of active clients	9,554	16,560	21,978	11,135	9,338
Average spending per active client (RMB)	3,020	2,434	2,545	2,351	2,163
<b>Aesthetic dermatology services</b>					
Number of procedures performed <sup>(Note)</sup>	91,844	177,653	238,342	97,604	78,992
Average spending per procedure (RMB)	261	235	244	264	233
Number of active clients	16,380	26,496	42,673	22,488	20,203
Average spending per active client (RMB)	1,466	1,576	1,361	1,147	912

*Note:* The number of procedures performed include trial procedures, retouch procedures and procedures performed as promotional gifts.

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Number of procedures performed demonstrated an overall increasing trend for all of our services provided for the three years ended 31 December 2019. Such growth was driven by the increase in overall active clients from 29,231 in 2017 to 47,785 in 2018 and further to 69,835 in 2019.

The extent of growth in the number of procedures performed was most significant with (i) minimally-invasive aesthetic services at approximately 98.9% in 2018 comparing with 2017 and approximately 24.1% in 2019 comparing with 2018; and (ii) aesthetic dermatology services at approximately 93.4% in 2018 comparing with 2017 and approximately 34.2% in 2019 comparing with 2018 because, unlike aesthetic surgery services, aesthetic dermatology services and minimally-invasive aesthetic services usually require repeated visits to achieve or maintain the desired aesthetic effects.

For the six months ended 30 June 2020, due to (i) the temporary suspension of operation and the reduced client flow as a result of the COVID-19 pandemic; and (ii) accidental sewage piping leakage in Raily Tiange, our number of procedures and active clients both recorded a decrease compared with the same period in 2019. The extent of decrease was most significant with aesthetic surgery services with approximately 46.1% drop in number of procedures performed and approximately 41.0% drop in number of active clients during the six months ended 30 June 2020 because clients of aesthetic surgery services would be exposed to higher potential risk of infection during the pandemic given the longer period of time for the completion of the aesthetic surgery procedures.

We calculated the average spending per procedure and average spending per active client by dividing the revenue of each type of aesthetic medical services by their relevant number of procedures performed or their relevant number of active clients respectively during the Track Record Period. The average spending per procedure and average spending per active client of aesthetic surgery services and minimally-invasive aesthetic services were generally on a decreasing trend as a result of our pricing strategy adopted in response to the intense competition and the different proportion of types of procedures performed during the relevant year. The average spending per procedure and average spending per active client of aesthetic dermatology services remained relatively stable during the three years ended 31 December 2019. For the six months ended 30 June 2020, the average spending per procedure and average spending per active client across all aesthetic medical services recorded decreased compared to the same period in 2019. Such decrease was due to (i) the general negative consumer spending sentiment under the impact and uncertainties of the COVID-19 pandemic, particularly the high spending consumer group of the aesthetic surgery services; and (ii) promotional campaigns organized by the Group as stimulus to drive client flow.

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### Revenue by Aesthetic Medical Institutions

The following table sets forth the contribution of each of our four aesthetic medical institutions to our revenue during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Hangzhou Raily	56,190	49.8	73,293	50.1	94,488	51.5	45,112	50.9	30,165	52.5
Ruian Raily	13,892	12.3	18,593	12.7	26,475	14.4	10,791	12.2	8,821	15.3
Raily Tiange	23,927	21.2	30,884	21.1	37,832	20.6	22,123	24.9	8,385	14.6
Wuhu Raily	18,923	16.7	23,486	16.1	24,814	13.5	10,673	12.0	10,105	17.6
	<u>112,932</u>	<u>100.0</u>	<u>146,256</u>	<u>100.0</u>	<u>183,609</u>	<u>100.0</u>	<u>88,699</u>	<u>100.0</u>	<u>57,476</u>	<u>100.0</u>

*Note:* Revenue generated from aesthetic medical management consulting services is excluded.

All of our aesthetic medical institutions demonstrated an overall increasing trend during the three years ended 31 December 2019, which was attributable to (i) the overall growing trend of the aesthetic medical services in the PRC and Zhejiang province at a CAGR of 22.5% and 24.6%, respectively, due to growing acceptance of aesthetic medical services and increasing disposal income according to the Frost & Sullivan Report; (ii) the timely and successful adoption of new business retail philosophy to capture the growing aesthetic medical services market in the PRC; and (iii) the growing popularity of minimally-invasive and aesthetic dermatology services in the industry, which enabled us to generate recurring income from repeat clients.

With the fast changing technological environment and the increasing prevalence of e-commerce and other specialized online platforms during the Track Record Period, our management realized the growing influence of new technology and social media on our business early on and acquired Guangzhou Yingjieshi to internalize its resources and expertise such that we could further develop online promoting and marketing strategies through social media platforms early in 2017, enabling us to capture the massively blooming pool of target consumers, being young females whose purchasing pattern are heavily influenced by key opinion leaders and influencers and are in the habit of online purchasing. For the three years ended 31 December 2019, our online promotion and marketing expenses increased significantly from approximately RMB8.3 million, to approximately RMB16.4 million and remained stable at approximately RMB15.8 million, representing at a CAGR of 38.0%.

The success in our business retail strategy was reflected in our decreasing clients acquisition costs per client, which refers to the promotion and marketing expenses divided by number of new clients, from RMB1,076 in 2017 to RMB900 in 2018 and further to RMB682 in 2019. According to the Frost & Sullivan Report, our client acquisition costs per client was much lower than the average client acquisition costs per client of RMB3,000 to RMB5,000 in the aesthetic medical industry in 2019. Further, based on the Frost & Sullivan Report, the percentage of our promotion and marketing expenses to our total aesthetic medical services revenue was approximately 13% in 2019, which was much lower than the

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average percentage of promotion and marketing expenses to aesthetic medical services revenue in the aesthetic medical industry, being approximately 22%, in 2019. As we were able to ride with the industry growth to capture our target group of clients, our overall utilisation rates demonstrated a consistent increasing trend from 46.9% in 2017 to 66.5% in 2018 and further to 80.6% in 2019. For details, please refer to the section headed “Business — Utilisation Rate of our Aesthetic Medical Institution” in this Prospectus.

Our fortified efforts in online sales and marketing were first applied to Hangzhou Raily, our flagship institution. In 2018, Hangzhou Raily has been rated a 5A institution by the CAPA. As at the Latest Practicable Date, Hangzhou Raily, among all four of our aesthetic medical institutions, has the highest number of physicians and number of operating and service rooms. It is our largest aesthetic medical institutions in terms of revenue generation, contributing around half of our total aesthetic medical services revenue during the Track Record Period. During the three years ended 31 December 2019, Hangzhou Raily noted an increasing trend in revenue, from approximately RMB56.2 million in 2017, to approximately RMB73.3 million in 2018, further to approximately RMB94.5 million in 2019, representing a CAGR of 29.7%, which were consistent with the significant increase in number of client clients of Hangzhou Raily from 13,242 in 2017, to 22,925 in 2018, and further to 27,358 in 2019, representing a CAGR of 43.7%.

For the six months ended 30 June 2020, in compliance with relevant public announcements and notices issued by governmental authorities to contain the outbreak of COVID-19, we had temporarily suspended all services of our aesthetic medical institutions since 1 February 2020 and with the permission of relevant governmental authorities, the operation has been partially resumed on March 2020 according to our resumption plan of operation which allowed our staff to resume duties in phases. As such, our revenue decreased significantly for the six months ended 30 June 2020 compared with the same period in 2019.

Despite being the smallest aesthetic medical institution among the Group in terms of area, Raily Tiange has been the second largest revenue contributor of the Group during the three years ended 31 December 2019 because of (i) the service mix with aesthetic surgery services being its largest segment contributing around half of its revenue during the Track Record Period; and (ii) its positioning strategy by focusing on premium service experience including a more spacious and private environment with shorter waiting time.

Ruian Raily and Wuhu Raily contributed similar proportion of revenue to the Group during the three years ended 31 December 2019. The proportion of revenue contribution of Ruian Raily exceeded that of Wuhu Raily for the year ended 31 December 2019 because of (i) the significant increase in aesthetic dermatology services at Ruian Raily after the completion of renovation of the expanded area in the approximate GFA of 801 sq.ft. in March 2019 to ride on the overall industry growth in the aesthetic dermatology market; and (ii) the decrease in the proportion of revenue contribution from its largest segment of aesthetic surgery services at Wuhu Raily from around 50% in 2018 to below 40% in 2019 whereas Ruian Raily focused more on aesthetic dermatology services, which was a larger segment than aesthetic surgery services during the Track Record Period. During the six months ended 30 June 2020, the proportion of revenue contribution of Wuhu Raily



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increased, because the impact of COVID-19 pandemic on Anhui Province in which Wuhu Raily is located is less severe than Zhejiang Province, whereas Zhejiang Province in which our other aesthetic medical institutions are located is one of the worst-affected provinces in China with reported cases of COVID-19 in Zhejiang Province far exceeded those in Anhui Province. The impact of COVID-19 pandemic on the aesthetic medical services industry in terms of resumption of consumers' retail sentiment and confidence is also more severe in Zhejiang Province than Anhui Province in general. As such, the COVID-19 pandemic has a more prolonged and serious adverse impact on the number of client visits to aesthetic medical institutions in Zhejiang Province than in Anhui Province.

### Revenue by Payment Method

The following table sets forth our revenue by payment methods during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
POS system	48,656	43.1	86,014	54.1	125,034	65.4	61,980	67.3	40,281	68.6
Third-party payment platforms	49,420	43.8	31,011	19.5	21,058	11.0	10,558	11.5	5,652	9.6
Online shops	6,951	6.2	23,273	14.6	33,379	17.5	14,480	15.7	10,505	17.9
Others <sup>(1)</sup>	7,905	6.9	18,637	11.8	11,685	6.1	5,063	5.5	2,292	3.9
	<u>112,932</u>	<u>100.0</u>	<u>158,935</u>	<u>100.0</u>	<u>191,156</u>	<u>100.0</u>	<u>92,081</u>	<u>100.0</u>	<u>58,730</u>	<u>100.0</u>

*Note:*

(1) Others primarily represent cash and bank transfer.

Payment by POS system represented on-site purchases through POS machines, including credit cards, debit card, Alipay and Wechat, during clients' visits to our aesthetic medical institutions. It represented the largest payment method because we will design and recommend the most suitable procedures to our clients after face-to-face consultation with clients at our aesthetic medical institutions.

In line with the growing number of active clients, our revenue received from POS system was on a general increasing trend during the Track Record Period. However, our revenue generated from POS system recorded significant 56.6% decrease during the six months ended 30 June 2020 because of the temporary suspension of the Group's operation due to the COVID-19 pandemic and the accidental sewage piping leakage in Raily Tiange, which significantly reduced client flow to our aesthetic medical institutions during the six months ended 30 June 2020.

Payment via third-party payment platforms primarily included payment from our clients via agents for provision of online instalment services and direct settlement with client via Alipay and Wechat.

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Unlike a traditional business model that merely focuses on conducting sales through our aesthetic medical institutions, we also operate online shops on a number of e-commerce online platforms to promote our brand and market our services. During the Track Record Period, we regularly offered promotional events, including the introduction of fixed-term service plans for various services such as laser hair removal, teeth cleansing and polishing and facial treatment to drive clients to visit our aesthetic medical institutions. Therefore, revenue made on online shops was also on the rise in terms of amount and proportion during the Track Record Period. Despite the pandemic, revenue received from third-party payment platforms and online shops managed to increase during the same period in 2020 which was benefited from the overall e-commerce boom amid the COVID-19 lockdown which confined people to their homes.

Cash represented payment made by our clients in cash at our aesthetic medical institutions. Due to the increasing popularity of mobile payments, there was a significant drop in cash payment which was primarily included in others by our clients during the Track Record Period. Our clients of aesthetic medical management consulting services primarily made payment to us by bank transfer. Due to the decrease in our revenue from aesthetic medical management consulting services during the Track Record Period, our revenue received via bank transfer also decreased accordingly.

### Cost of Sales

Our cost of sales mainly included cost of supplies consumed, and staff costs. During the Track Record Period, our cost of sales was approximately RMB38.4 million, RMB66.4 million, RMB90.1 million and RMB34.4 million, respectively.

### Cost of Sales by Nature

The following table sets forth our cost of sales by nature during the Track Record Period:

	2017		Year ended 31 December 2018		2019		Six months ended 30 June 2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Cost of supplies consumed	19,378	50.5	34,282	51.6	47,327	52.5	23,388	52.1	19,241	55.8
— medical consumables	11,097	28.9	21,296	32.1	27,598	30.6	13,603	30.3	11,910	34.6
— pharmaceuticals	8,281	21.6	12,986	19.5	19,729	21.9	9,785	21.8	7,331	21.2
Staff costs	14,899	38.8	25,659	38.6	35,791	39.7	17,501	39.0	12,838	37.3
Depreciation and amortisation	1,847	4.8	2,524	3.8	3,185	3.5	1,532	3.4	1,711	5.0
Rental related expenses <sup>(Note)</sup>	1,461	3.8	1,577	2.4	2,719	3.0	1,779	4.0	368	1.1
Utility expenses	805	2.1	855	1.3	878	1.0	462	1.0	286	0.8
Others	—	—	1,545	2.3	218	0.3	245	0.5	—	—
	<u>38,390</u>	<u>100.0</u>	<u>66,442</u>	<u>100.0</u>	<u>90,118</u>	<u>100.0</u>	<u>44,907</u>	<u>100.0</u>	<u>34,444</u>	<u>100.0</u>

*Note:* Rental related expenses included both operating rental expenses and depreciation of right-of-use asset.

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Cost of supplies consumed was our largest component of cost of sales during the Track Record Period, which represented mainly the cost of (i) our medical consumables mainly representing implants and auxiliary materials used in our aesthetic surgery services, hyaluronic acid used in our minimally-invasive aesthetic services and skincare products used in our aesthetic dermatology services; and (ii) our pharmaceuticals mainly representing botulinum toxin type A used in our minimally-invasive aesthetic services and other drugs used in our aesthetic surgery services.

Staff costs are our second largest component of our cost of sales during the Track Record Period, which mainly represented our salaries and bonuses paid to our physicians and medical staff. All our aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology procedures are required to be performed by qualified physicians with necessary clinical working experience in accordance with the relevant PRC laws and regulations.

### *Cost of Sales by Service Offerings*

The following table sets forth our cost of sales by service offerings during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Aesthetic medical services</b>	<b>38,390</b>	<b>100.0</b>	<b>59,096</b>	<b>88.9</b>	<b>87,319</b>	<b>96.9</b>	<b>42,756</b>	<b>95.2</b>	<b>33,831</b>	<b>98.2</b>
Aesthetic surgery services	12,201	31.8	14,221	21.4	16,627	18.4	7,503	16.7	7,129	20.7
Minimally-invasive aesthetic services	16,416	42.8	23,266	35.0	32,060	35.6	16,516	36.8	12,949	37.6
Aesthetic dermatology services	6,433	16.8	15,354	23.1	22,879	25.4	10,921	24.3	8,206	23.8
Others <i>(Note)</i>	3,340	8.6	6,255	9.4	15,753	17.5	7,816	17.4	5,547	16.1
<b>Aesthetic medical management consulting services</b>	<b>—</b>	<b>—</b>	<b>7,346</b>	<b>11.1</b>	<b>2,799</b>	<b>3.1</b>	<b>2,151</b>	<b>4.8</b>	<b>613</b>	<b>1.8</b>
	<u>38,390</u>	<u>100.0</u>	<u>66,442</u>	<u>100.0</u>	<u>90,118</u>	<u>100.0</u>	<u>44,907</u>	<u>100.0</u>	<u>34,444</u>	<u>100.0</u>

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

Cost of sales incurred in our aesthetic surgery services mainly represented cost of medical consumables, including implants and auxiliary materials and other drugs used in our aesthetic surgery services, and staff costs.

Cost of sales incurred in our aesthetic dermatology services mainly represented cost of skincare products, depreciation cost of equipment and staff costs.

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Our minimally-invasive aesthetic services contributed to the largest component of cost of sales during the Track Record Period, at approximately 42.8%, 35.0%, 35.6% and 37.6%, respectively. The high cost of sales was mainly due to the cost of injection materials such as botulinum toxin type A and hyaluronic acid, which may be manufactured locally in the PRC or imported from overseas.

### Gross Profit

During the Track Record Period, our gross profit amounted to approximately RMB74.5 million, RMB92.5 million, RMB101.0 million and RMB24.3 million, respectively. Our gross profit margin was approximately 66.0%, 58.2%, 52.9% and 41.4%, respectively.

The following table sets forth our gross profit and gross profit margin by service offered during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Aesthetic medical services	74,542	66.0	87,160	59.6	96,290	52.4	45,943	51.8	23,645	41.1
Aesthetic surgery services	44,484	78.5	43,309	75.3	38,369	69.8	21,044	73.7	7,255	50.4
Minimally-invasive aesthetic services	12,438	43.1	17,044	42.3	23,882	42.7	9,660	36.9	7,247	35.9
Aesthetic dermatology services	17,578	73.2	26,414	63.2	35,213	60.6	14,877	57.7	10,211	55.4
Others	42	1.2	393	5.9	(1,174)	(8.1)	362	4.4	(1,068)	(23.8)
Aesthetic medical management consulting services	—	—	5,333	42.1	4,748	62.9	1,231	36.4	641	51.1
	74,542	66.0	92,493	58.2	101,038	52.9	47,174	51.2	24,286	41.4

During the three years ended 31 December 2019, aesthetic surgery services were our largest gross profit contributor. We also recorded the highest gross profit margin with aesthetic surgery services because it mainly involved staff cost for the performance of surgery by our physicians and assistance to our physicians by medical staff; and lowest gross profit margin with minimally-invasive aesthetic services as they relied largely on the injection materials, which may be manufactured locally in the PRC or imported from overseas. Aesthetic dermatology services also recorded high gross profit margin because it also mainly involved staff cost and depreciation of equipment for the performance of energy-based procedures with equipments. Overall gross profit margin was decreasing during the three years ended 31 December 2019 because (i) the decreasing proportion of revenue generated from aesthetic surgery services; and (ii) the decreasing gross profit margin of our aesthetic medical services due to our pricing strategy to increase competitiveness of our services amid the intense competition in the industry during the relevant year. The overall gross profit margin decreased significantly by 9.8 percentage points during the six months ended 30 June 2020 primarily because of the further decrease in proportion of gross profit generated from aesthetic surgery services, which was severely and adversely impacted by the COVID-19 pandemic and the accidental sewage pipeline

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leakage in Raily Tiange. Further, despite the suspension of operation and the reduced client flow, particularly for aesthetic surgery services, we had to continue to bear our fixed costs, such as staff costs. Gross profit margin for minimally-invasive aesthetic services and aesthetic dermatology services remained relatively stable compared to the six months ended 30 June 2019.

We recorded gross loss for others in 2019 and the six months ended 30 June 2020, which primarily consisted of our aesthetic dental services and ancillary services such as anesthesiology services, nursing services for inpatients and physical examination services. Our ancillary services recorded gross losses as we only charged minimal fee for most of our ancillary services since they were some of the key stages in the process of our aesthetic medical services. For example, physical examinations such as blood test, skin test or computed tomography, may be required to be conducted to ensure the medical condition of the client is suitable for the relevant procedure. It is our strategy to provide a full range of aesthetical medical services, which we believe can improve clients' experience and increase clients' retention. The gross loss margin deteriorated in the six months ended 30 June 2020 because clients of aesthetic surgery services and aesthetic dental services were required to undergo COVID-19 testings as part of our pandemic preventive measures to minimise the risk of infection by our clients and staff.

In order to improve the gross loss and gross loss margin for our other aesthetic medical services, we intend to implement the following strategies:

- (i) charge certain nursing services which are previously provided for free and increase the price of physical examinations, such as blood test, skin test or computed tomography, while maintaining the competitiveness of the total service fees;
- (ii) strengthen our marketing and promotion efforts on higher value and/or higher profit margin aesthetic dental services, such as implant dentistry procedures and orthodontics and cosmetic dentistry procedures; and
- (iii) leverage on our existing client base and cross-sell our aesthetic dental services to our clients of other aesthetical medical services.

The following table sets forth the gross profit and gross profit margin of each of our four aesthetic medical institutions during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Hangzhou Raily	38,638	68.8	40,207	54.9	44,314	46.9	19,539	43.3	10,551	35.0
Ruian Raily	8,822	63.5	10,832	58.3	14,819	56.0	5,636	52.2	3,849	43.6
Raily Tiange	16,528	69.1	21,323	69.0	23,621	62.4	15,239	68.9	3,880	46.3
Wuhu Raily	10,554	55.8	14,798	63.0	13,536	54.5	5,529	51.8	5,365	53.1
	<u>74,542</u>	<u>66.0</u>	<u>87,160</u>	<u>59.6</u>	<u>96,290</u>	<u>52.4</u>	<u>45,943</u>	<u>51.8</u>	<u>23,645</u>	<u>41.1</u>

*Note:* Revenue generated from aesthetic medical management consulting services is excluded.

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The profitability of each aesthetic medical institution largely varied with its positioning and its service mix. Higher revenue proportion from aesthetic surgery services and aesthetic dermatology services would generally result in higher gross profit margin whereas higher proportion of revenue from minimally-invasive aesthetic services would generally result in overall lower gross profit margin.

During the Track Record Period, there is a general decreasing trend of the gross profit margin of all our aesthetic medical institutions, which was mainly due to the decreasing trend of proportion of the aesthetic surgery services, being our most profitable segment. Among the aesthetic medical institutions, Hangzhou Raily experienced the most significant drop in gross profit margin during the three years ended 31 December 2019, which was driven by the highest decreasing trend in the proportion of revenue contribution from aesthetic surgery services, from approximately 54.0% of Hangzhou Raily's revenue for the year ended 31 December 2017, to approximately 31.7% for the year ended 31 December 2018, and further to approximately 23.5% for the year ended 31 December 2019. During the six months ended 30 June 2020, Hangzhou Raily located in Zhejiang Province was severely and adversely impacted by the COVID-19 pandemic which significantly reduced the client flow while having to continue to bear the fixed costs. Despite the declining gross profit margin, Hangzhou Raily remained the largest gross profit contributor throughout the Track Record Period at approximately 51.8%, 43.5%, 43.9% and 43.4% of the Group's total gross profit.

Raily Tiange recorded the highest and most stable gross profit margin among our four medical institutions during the three years ended 31 December 2019 because of its positioning. While Hangzhou Raily used its strategic pricing to attract clients, Raily Tiange attracted its clients with a different positioning strategy by focusing on a premium service experience including a more spacious and private environment with shorter waiting time. Revenue contribution from the different segments in Raily Tiange remained relatively stable during the three years ended 31 December 2019 with aesthetic surgery services continued to be its largest revenue contributor. Raily Tiange remained our second largest gross profit contributor during the three years ended 31 December 2019 at approximately 22.2%, 23.1% and 23.4% of the Group's total gross profit. During the six months ended 30 June 2020, the gross profit and gross profit margin dropped most significantly in Raily Tiange because in addition to the temporary suspension of operation due to the COVID-19 pandemic, Raily Tiange was further affected by the accidental sewage piping leakage in proximity of the operation rooms, resulting in temporary closure of aesthetic surgery services for another two months from May 2020 to June 2020.

The proportion of gross profit contribution from Ruian Raily showed an overall increase from approximately 11.8% in 2017 to approximately 11.7% in 2018 and further to approximately 14.7% in 2019, which exceeded Wuhu Raily because of Ruian Raily's focus on aesthetic dermatology services which increased steadily during the three years ended 31 December 2019. Gross profit remained stable for Wuhu Raily and its gross profit margin managed to increase slightly from 51.8% during the six months ended 30 June 2019 to 53.1% during the same period in 2020 because the impact of COVID-19 pandemic on Anhui Province in which Wuhu Raily is located was less severe than Zhejiang Province during the six months ended 30 June 2020.



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### Other Income and Gains

Our other income and gains amounted to approximately RMB65,000, RMB0.6 million, RMB1.6 million and RMB1.1 million for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. Our other income and gains primarily represented (i) reversal of impairment of trade receivables for the year ended 31 December 2018 due to subsequent settlement of trade receivables; and (ii) investment income on financial investments; (iii) exchange gains recognised for the year ended 31 December 2019; (iv) other income of RMB0.6 million arising from the lease payment partially waived by landlords during the six months ended 30 June 2020 in times of the COVID-19 pandemic; and (v) government subsidy of RMB0.3 million, being a financial relief for COVID-19 offered to employers with an aim to encourage employee retention.

### Selling and Distribution Expenses

Our selling and distribution expenses primarily comprised promotion and marketing expenses, and staff costs. During the Track Record Period, our selling and distribution expenses represented approximately 32.8%, 28.1%, 26.2% and 25.8% of our revenue, respectively.

The following table sets forth a breakdown of our selling and distribution expenses during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Promotion and marketing expenses	15,122	40.8	22,705	50.8	23,257	46.4	12,921	48.8	6,909	45.7
— Online advertising	8,339	22.5	16,442	36.8	15,783	31.5	8,852	33.4	5,262	34.8
— Out-of-home advertising	6,783	18.3	6,263	14.0	7,474	14.9	4,069	15.4	1,647	10.9
Staff costs	16,874	45.6	15,303	34.3	20,170	40.2	10,127	38.2	6,133	40.5
Rental related expenses <sup>(Note 1)</sup>	1,725	4.7	1,944	4.4	2,557	5.1	1,728	6.5	1,206	8.0
Utility expenses	1,396	3.8	1,351	3.0	1,464	2.9	206	0.8	179	1.2
Others <sup>(Note 2)</sup>	1,903	5.1	3,364	7.5	2,724	5.4	1,520	5.7	699	4.6
	<u>37,020</u>	<u>100.0</u>	<u>44,667</u>	<u>100.0</u>	<u>50,172</u>	<u>100.0</u>	<u>26,502</u>	<u>100.0</u>	<u>15,126</u>	<u>100.0</u>

Note:

- Rental related expenses included both operating rental expenses and depreciation of right-of-use asset.
- Others mainly included depreciation, travel and office expenses.

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During the Track Record Period, we mainly placed advertisements through online advertising on a number of e-commerce online platforms to promote our brand and online shops in order to drive traffic to our aesthetic medical institutions. During the Track Record Period, our online advertisements were generally displayed in the forms of videos, advertorials, and banners on websites and/or applications on the e-commerce online platforms. In addition, we promote our brand and services through out-of-home advertising channels, such as billboards. For example, we place outdoor advertisements on billboards at bus stops and inside the elevators of buildings in the cities where our aesthetic medical institutions are located. We also hold various themed promotional events such as special discount given for specific types of procedures during each year to reward our existing clients and attract new clients.

Staff costs represented salaries and bonuses paid to our sales and marketing staff during the Track Record Period. Our sales staff mainly referred to our staff in the sales and marketing team which would be responsible for managing online shops, collection of market data and organization of marketing events.

### Administrative Expenses

Our administrative expenses primarily comprised staff costs, rental related, utility and depreciation expenses. During the Track Record Period, our administrative expenses represented approximately 11.0%, 11.6%, 17.5% and 34.5% of our revenue, respectively.

The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	6,364	51.4	8,988	48.6	10,476	31.4	4,948	31.7	7,041	34.7
Rental related expenses <sup>(Note 1)</sup>	2,085	16.8	1,966	10.6	1,475	4.4	463	3.0	280	1.4
Depreciation expenses	1,221	9.9	1,240	6.7	1,552	4.6	743	4.8	1,420	7.0
Travel and hospitality expenses	964	7.8	1,099	5.9	1,272	3.8	593	3.8	402	2.0
Office expenses	504	4.1	800	4.3	892	2.7	363	2.3	508	2.5
Listing expenses	—	—	2,349	12.7	15,316	45.8	7,392	47.3	9,727	47.9
Utility expenses	116	0.9	290	1.6	389	1.2	406	2.6	249	1.2
Others <sup>(Note 2)</sup>	1,138	9.1	1,757	9.6	2,033	6.1	706	4.5	662	3.3
	<u>12,392</u>	<u>100.0</u>	<u>18,489</u>	<u>100.0</u>	<u>33,405</u>	<u>100.0</u>	<u>15,614</u>	<u>100.0</u>	<u>20,289</u>	<u>100.0</u>

*Note:*

1. Rental related expenses included both operating rental expenses and depreciation of right-of-use asset.
2. Others mainly include bank charges and professional service fees.

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Staff costs are our largest component of our administrative expenses, which included mainly managerial and administrative staff. Listing expenses mainly include professional fees to legal, accounting and other advisers for their services rendered in preparation for the Listing.

### Finance Costs

The following table sets forth a breakdown of our finance costs during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Interests on lease liabilities	1,361	100.0	1,624	49.3	2,302	98.5	1,182	100.0	1,020	84.4
Interests on loans	—	—	1,667	50.7	34	1.5	—	—	188	15.6
	<u>1,361</u>	<u>100.0</u>	<u>3,291</u>	<u>100.0</u>	<u>2,336</u>	<u>100.0</u>	<u>1,182</u>	<u>100.0</u>	<u>1,208</u>	<u>100.0</u>

Interests on lease liabilities represent the interest elements on lease liabilities, which were related to our lease contracts for working space used in our operations. Leases of working space generally have lease terms between 2 and 10 years.

Interests on loans for the year ended 31 December 2018 represent interests incurred on a loan originally from an Independent Third Party at 10% per annum. On 25 May 2018, Raily Beauty Consultation, Mr. Fu, Handan Guangshu, Raily HK and the Independent Third Party entered into a loan agreement pursuant to which Raily Beauty Consultation obtained borrowings in the amount of approximately RMB33.3 million from the Independent Third Party. The loan was borrowed for the potential expansion or acquisition of aesthetic medical institutions, purchases of equipment and other corporate purposes. To secure such borrowings, Mr. Fu provided personal guarantee along with a pledge by Handan Guangshu in its 10% equity interests in Raily Beauty Consultation. In August 2018, the pledge was fully discharged and all the liabilities and debts arising from the loan have been transferred to Mr. Fu. As at the Latest Practicable Date, the sum has been fully settled. For more details, please refer to “Selected Items of Consolidated Statements of Financial Position — Other Payables” in this section.

Interests on loans for the year ended 31 December 2019 and the six months ended 30 June 2020 mainly represent interests incurred on two loans drawdown during the last quarter of 2019. On 10 October 2019, Hangzhou Raily entered into a loan agreement with a PRC bank, pursuant to which such PRC bank agreed to provide a revolving facility in an aggregate amount of RMB10.0 million for a period from 10 October 2019 to 30 September 2020 at an interest rate of 5.0025% per annum. On 1 November 2019, Hangzhou Raily entered into a loan agreement with another PRC bank, pursuant to which the PRC bank agreed to lend to Hangzhou Raily a term loan in the principal amount of RMB2.0 million repayable at an interest rate of 4.2% per annum.

For more details, please refer to the paragraph headed “Indebtedness” in this section.

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### **Income Tax Expense/Credit**

Our income tax expenses represented our total current and deferred tax expenses under the relevant PRC income tax rules and regulations. For the three years ended 31 December 2019, our income tax expenses amounted to approximately RMB5.9 million, RMB8.0 million and RMB6.1 million, respectively. Our effective tax rates were 25.4%, 30.2% and 37.2%, respectively. Our effective tax rates increased during the three years ended 31 December 2019 and were higher than the PRC income tax rate of 25% during the year ended 31 December 2018 and 2019, mainly due to (i) the effect of withholding tax at 10% on the distributable profits of our PRC subsidiaries. For the two years ended 31 December 2018 and 2019, we declared dividend of approximately RMB19.4 million and RMB12.0 million, respectively; (ii) the interests on loans of RMB1.7 million for the year ended 31 December 2018 which were not deductible for tax purposes; and (iii) tax losses arising from our offshore entities for the year ended 31 December 2019 while no deferred tax asset was recognised as our offshore subsidiaries is expected to have no taxable profit in the coming years. During the six months ended 30 June 2020, we recorded income tax credit of approximately RMB0.6 million, which was mainly due to (i) loss before tax position of our Group; and (ii) tax losses arising from our offshore subsidiaries for the period while no deferred tax asset was recognised.

Our Directors confirmed that there were no disputes or tax investigation during the Track Record Period and up to the Latest Practicable Date. Confirmations were also obtained from relevant tax authorities in the PRC for each of our Group's subsidiaries incorporated in the PRC confirming that there were no material tax non-compliances or outstanding tax payables during the Track Record Period.

Our Company and subsidiaries were incorporated in different jurisdictions, with different taxation requirements illustrated as follows:

#### ***Cayman Islands/BVI***

Our Group is not subject to any income tax in the Cayman Islands or the BVI.

#### ***Hong Kong***

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits. No Hong Kong profits tax has been provided as the subsidiary in Hong Kong did not have assessable profits which are subject to Hong Kong profits tax during the Track Record Period.

#### ***PRC***

The provision for current income tax in PRC is based on the statutory rate of 25% of the assessable profit of our Group as determined in accordance with the PRC Corporate Income Tax Law. Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises (關於實施小微企業普惠性稅收減免政策的通知) and the Announcement of the State Administration of Taxation on Issues Concerning the

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Implementation of the Inclusive Income Tax Deduction and Exemption Policies for Small Low-Profit Enterprises (國家稅務總局關於實施小型微利企業普惠性所得稅減免政策有關問題的公告), Ningbo Zhuerli enjoyed a preferential tax rate of 10% as a small and micro enterprise. If Ningbo Zhuerli was no longer entitled to preferential tax treatment, our net profit would decrease by nil, nil, less than RMB0.1 million and less than RMB0.1 million during the Track Record Period, respectively.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six months ended 30 June 2020 as compared to six months ended 30 June 2019

##### *Revenue*

Our revenue decreased significantly by approximately RMB33.4 million, or 36.3%, from approximately RMB92.1 million for the six months ended 30 June 2019 to approximately RMB58.7 million for the six months ended 30 June 2020. The decrease was generally due to the temporary suspension of the operations of our aesthetic medical institutions from 1 February 2020 until our full scale resumption of operation of all our aesthetic medical institutions on 10 April 2020 to facilitate societal prevention and control of COVID-19 and implementation of our pandemic preventive measures so as to minimise the risk of infection by our clients and staff. Upon the resumption of operation, the COVID-19 pandemic also severely and adversely affected our clients' willingness in visiting our aesthetic medical institutions and the general consumer spending sentiment in aesthetic medical services was deterred. As such, the number of our active clients has decreased from 36,230 during the six months ended 30 June 2019 to 31,080 during the same period in 2020, representing a drop of 14.2%.

##### *(i) Aesthetic Surgery Services*

Revenues from aesthetic surgery services decreased significantly by approximately RMB14.1 million, or 49.5%, from approximately RMB28.5 million for the six months ended 30 June 2019 to RMB14.4 million for the six months ended 30 June 2020 whereas our number of procedures performed decreased from approximately 4,219 for the six months ended 30 June 2019 to approximately 2,275 for the six months ended 30 June 2020, representing a drop of approximately 46.1% as a result of the reduced number of active clients from 2,607 during six months ended 30 June 2019 to 1,539 during the six months ended 30 June 2020, representing a drop of 40.9%. The extent of decrease was most significant with aesthetic surgery services because clients of aesthetic surgery services in general would be exposed to higher potential risk of infection during the pandemic given the longer treatment time for the completion of the aesthetic surgery procedures. In addition, Raily Tiange was further affected by the accidental sewage piping leakage in proximity of the operation rooms, resulting in temporary closure of aesthetic surgery services for another two months from May 2020 to June 2020.

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### *(ii) Minimally-invasive Aesthetic Services*

Revenue from minimally-invasive aesthetic services decreased by approximately RMB6.0 million, or 22.9%, from approximately RMB26.2 million for the six months ended 30 June 2019 to RMB20.2 million for the six months ended 30 June 2020 whereas the number of procedures performed decreased from approximately 22,594 during the six months ended 30 June 2019 to approximately 21,492 during the six months ended 30 June 2020, representing a drop of approximately 4.9%. Despite the decrease in revenue, minimally-invasive aesthetic services became the largest revenue contributor during the six months ended 30 June 2020, accounting for approximately 34.4% of the total revenue because (i) the aesthetic effect of minimally-invasive procedures only lasts for a limited period of time and repeated procedures are usually required for the upkeep of the aesthetic effect; (ii) the relatively shorter treatment time required for the completion of minimally-invasive procedures, compared to aesthetic surgery services and aesthetic dermatology services; and (iii) there are no alternative self-administered procedures which clients can perform at home to achieve aesthetic results close to that of minimally-invasive procedures, clients of minimally-invasive procedures would be apt to visit aesthetic medical institutions in person to receive minimally-invasive procedures even under the impact of the outbreak of COVID-19 with reduced social activities. Therefore, the outbreak of COVID-19 has a relatively small impact on minimally-invasive procedures, comparing with other aesthetic medical procedures.

### *(iii) Aesthetic Dermatology Services*

Revenue from aesthetic dermatology services decreased by approximately RMB7.4 million, or 28.7%, from approximately RMB25.8 million for the six months ended 30 June 2019 to approximately RMB18.4 million for the six months ended 30 June 2020 whereas our number of services provided decreased from approximately 97,604 times for the six months ended 30 June 2019 to approximately 78,992 times for the six months ended 30 June 2020, representing approximately a drop of approximately 19.1%. As a stimulus to boost client traffic, we organized promotional campaigns on various e-commerce online platforms for some aesthetic dermatology services, hence the average spending per procedure and average spending per active client both decreased on aesthetic dermatology services for the six months ended 30 June 2020.

### *(iv) Aesthetic Medical Management Consulting Services*

Revenue from aesthetic medical management consulting services decreased by approximately RMB2.1 million, or 61.8%, from approximately RMB3.4 million for the six months ended 30 June 2019 to approximately RMB1.3 million for the six months ended 30 June 2020. Such decrease was mainly due to (i) our business strategy to shift focus onto providing consulting services to medical institutions of larger scale to increase profitability, thereby resulting in a further decrease in the number of new clients; (ii) the Group waived certain service fees for its aesthetic medical management consulting service clients in the six months ended 30 June 2020 as a gesture of goodwill and good client management to relieve the potential hardship faced by its clients in times of the COVID-19 pandemic; and (iii) a decrease in the performance bonus received from the Group's aesthetic medical



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management consulting service clients as the COVID-19 pandemic has materially and adversely affected general business environment of aesthetic medical services and the business performance of its clients in particular.

### *Cost of Sales*

Our cost of sales decreased by approximately RMB10.5 million, or 23.4%, from approximately RMB44.9 million for the six months ended 30 June 2019 to approximately RMB34.4 million for the six months ended 30 June 2020. The decrease was mainly due to:

- (i) The decrease in cost of supplies consumed of approximately RMB4.1 million, or 17.7%, which was in line with the reduced client flow and the reduced number of procedures performed due to COVID-19 pandemic, and the closure of aesthetic surgery services of Raily Tiange;
- (ii) The decrease in staff costs of approximately RMB4.7 million, or 26.7%, which was due to the reclassification of staff costs for medical staffs to administrative expenses during the temporary suspension of operation of our aesthetic medical institutions as a result of the COVID-19 pandemic in the first half of 2020; and
- (iii) Our rental related expenses also decreased by approximately RMB1.4 million because the rental related expenses were reclassified to administrative expenses during the suspension of operation of our aesthetic medical institution and our lease payment was partially waived by landlords during the COVID-19 pandemic.

### *Gross Profit and Gross profit margin*

Our gross profit decreased significantly by approximately RMB22.9 million, or 48.5%, from approximately RMB47.2 million for the six months ended 30 June 2019 to approximately RMB24.3 million for the six months ended 30 June 2020 due to the temporary suspension of operations of our aesthetic medical institutions.

Our gross profit margin decreased by approximately 9.8 percentage points, from approximately 51.2% for the six months ended 30 June 2019 to approximately 41.4% for the six months ended 30 June 2020. The decrease was primarily due to (i) the lower proportion of gross profit generated from aesthetic surgery services from approximately 44.5% of our total gross profit during the six months ended 30 June 2019 to approximately 30.0% during the same period in 2020; (ii) the overall decrease in gross profit margin across all aesthetic medical services because despite the temporary suspension, we had to continue to bear our fixed costs such as staff costs, rental-related expenses and etc.; and (iii) various promotional campaigns organised as stimulus to drive client flows after the resumption of operations.

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### *Selling and Distribution Expenses*

Our selling and distribution expenses decreased by approximately RMB11.4 million, or 43.0%, from approximately RMB26.5 million for the six months ended 30 June 2019 to approximately RMB15.1 million for the six months ended 30 June 2020. The decrease was primarily attributable to (i) the significant decrease in promotional and marketing expenses by approximately RMB6.0 million due to the temporary suspension and the uncertainties surrounding COVID-19 resulting in the reduction or delay of advertisement placement during the temporary suspension and lockdown as part of the Group's cost control measures to mitigate the adverse impact of the temporary suspension on our performance; (ii) decrease in staff costs by approximately RMB4.0 million because we re-classified staff cost of selling and distribution staffs during the temporary suspension to administrative expenses; and (iii) decrease in rental related expenses of approximately RMB0.5 million due to the rental expenses waived by our landlords to relieve the hardship we faced in times of the COVID-19 pandemic.

### *Administrative Expenses*

Our administrative expenses increased by approximately RMB4.7 million, or 30.1%, from approximately RMB15.6 million for the six months ended 30 June 2019 to approximately RMB20.3 million for the six months ended 30 June 2020. The increase was primarily attributable to (i) the increase in staff costs by approximately RMB2.1 million due to the increase in average number of administrative staffs from 72 for the six months ended 30 June 2019 to 120 for the six months ended 30 June 2020. The medical staff and selling and distribution staff were unable to carry out their usual duties during the period of temporary suspension of operation, so that such idle staff costs were not directly related to our cost of sales nor selling and distribution expenses, and hence were classified as administrative expenses. Our Group is of the view that such accounting treatment reflected the extraordinary and one-off impact of the COVID-19 pandemic; and (ii) the higher listing expenses incurred of approximately RMB9.7 million during the six months ended 30 June 2020 for the preparation of the Listing, while the listing expenses for the six months ended 30 June 2019 were approximately RMB7.4 million.

### *Income Tax Expense/Credit*

Our Group incurred income tax expense of approximately RMB2.6 million during the six months ended 30 June 2019. As our Group recorded loss before taxation during the same period in 2020, income tax credit of approximately RMB0.6 million was recognised.

Our effective tax rates, which represented our income tax expenses over our profit before tax, were 53.9% for the six months ended 30 June 2019. Our high effective tax rate during the six months ended 30 June 2019 was mainly due to (i) tax losses and temporary differences not recognised arising from our offshore entities as a result of listing expenses; and (ii) effect of withholding tax on dividends.

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### *Total Comprehensive Income/Loss for the Period*

As a result of the foregoing, our Group recorded total comprehensive income of approximately RMB2.2 million for the six months ended 30 June 2019 and total comprehensive loss of approximately RMB11.8 million for the six months ended 30 June 2020, representing a decrease in profit of approximately RMB14.0 million.

### **Year ended 31 December 2019 as compared to year ended 31 December 2018**

#### *Revenue*

Our revenue increased by approximately RMB32.3 million, or 20.3%, from approximately RMB158.9 million for the year ended 31 December 2018 to approximately RMB191.2 million for the year ended 31 December 2019. Such growth was supported by the increase in our active clients, meaning clients who had received at least one procedure in the relevant financial year, increased from 47,785 for the year ended 31 December 2018 to 69,835 for the year ended 31 December 2019, representing a significant growth of approximately 52.3%. The increase in revenue was driven by the increase in utilization rates across all aesthetic medical institutions in 2019. Our overall utilization rates increased from 66.5% in 2018 to 80.6% in 2019 which were mainly due to our timely adoption of the new business retail philosophy, which enabled us to capture our target group of clients. The utilization rates of Ruian Raily, Raily Tiange and Wuhu Raily picked up during the year ended 31 December 2019 because with the success of the new business retail philosophy in Hangzhou Raily, being the flagship institution of our Group, we subsequently applied fortified efforts in online sales and marketing for our other three aesthetic medical institutions.

#### *(i) Aesthetic Surgery Services*

Revenue from our aesthetic surgery services decreased slightly by approximately RMB2.5 million, or 4.3%, from approximately RMB57.5 million for the year ended 31 December 2018 to RMB55.0 million for the year ended 31 December 2019 whereas our number of procedures performed increased slightly from approximately 7,318 for the year ended 31 December 2018 to approximately 8,280 for the year ended 31 December 2019, representing a growth of approximately 13.1%. The slight increase in number of surgeries was because of the combined effect of (i) the replacement of certain aesthetic surgical procedures such as wrinkle reduction and alterations of the appearance of various parts of the face or body, such as nose and facial shape by minimally-invasive aesthetic services; and (ii) the increase in aesthetic surgical procedures in relation to lipoplasty and fat transfer, which cannot be replaced by other aesthetic medical procedures.

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### *(ii) Minimally-invasive Aesthetic Services*

Revenue from minimally-invasive aesthetic services increased by approximately RMB15.6 million, or 38.7%, from approximately RMB40.3 million for the year ended 31 December 2018 to approximately RMB55.9 million for the year ended 31 December 2019 whereas the number of procedures performed increased significantly from approximately 44,948 during the year ended 31 December 2018 to approximately 55,773 during the year ended 31 December 2019, representing a growth of approximately 24.1%. Such growth in both revenue and number of procedures performed was due to (i) our increase in overall customers; and (ii) the increasing popularity of minimally-invasive aesthetic services in replacement of aesthetic surgery services due to the lowered medical risk of non-surgical aesthetic procedures and shortened recovery time, compared with aesthetic surgery services.

### *(iii) Aesthetic Dermatology Services*

Revenue from aesthetic dermatology services increased by approximately RMB16.3 million, or 39.0%, from approximately RMB41.8 million for the year ended 31 December 2018 to approximately RMB58.1 million for the year ended 31 December 2019 whereas our number of services provided increased from approximately 177,653 times for the year ended 31 December 2018 to approximately 238,342 times for the year ended 31 December 2019, representing approximately a growth of approximately 34.2%. Our extent of growth of revenue derived from aesthetic dermatology services exceeded that for the number of services was mainly due to the difference in service mix where there were higher proportion of products such as microneedle and picosecond laser, which generally had higher selling prices.

### *(iv) Aesthetic Medical Management Consulting Services*

Revenue from aesthetic medical management consulting services decreased by approximately RMB5.2 million, or 40.9%, from approximately RMB12.7 million for the year ended 31 December 2018 to approximately RMB7.5 million for the year ended 31 December 2019. The decrease was due to our Group's business strategy to shift focus onto providing consulting services to medical institutions of larger scale, which could offer our Group a higher gross profit margin. As such, our number of our clients of aesthetic medical management consulting services customers decreased from 98 for the year ended 31 December 2018 to 85 for the year ended 31 December 2019. While our revenue from aesthetic medical management consulting services decreased by 40.9%, our gross profit margin of such service increased by 20.8 percentage points.

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### *Cost of Sales*

Our cost of sales increased by approximately RMB23.7 million, or 35.7%, from approximately RMB66.4 million for the year ended 31 December 2018 to approximately RMB90.1 million for the year ended 31 December 2019. The increase was mainly attributable to:

- (i) the increase in cost of supplies consumed of approximately RMB13.0 million, or 37.9%, which was primarily contributed by approximately RMB6.3 million increase in medical consumables mainly comprising hyaluronic acid used in minimally-invasive aesthetic services and approximately RMB6.7 million increase in pharmaceuticals mainly driven by the increase in botulinum toxin type A also to support the growth in minimally-invasive aesthetic services;
- (ii) the increase in staff costs of approximately RMB10.1 million, or 39.3%, mainly due to the increase in our average number of staff from 130 for the year ended 31 December 2018 to 156 for the year ended 31 December 2019 to support our business growth as reflect in our increasing utilisation rates;
- (iii) our rental related expenses also increased by approximately RMB1.1 million because of the renovation and expansion of Hangzhou Raily and Ruian Raily in 2018; and
- (iv) the increase in depreciation and amortization by RMB0.7 million, due to the purchase of medical equipment for picosecond laser treatment during the year ended 31 December 2018 which had a full year impact for the year ended 31 December 2019.

### *Gross Profit and Gross Profit Margin*

Our gross profit increased by approximately RMB8.5 million, or 9.2%, from approximately RMB92.5 million for the year ended 31 December 2018 to approximately RMB101.0 million for the year ended 31 December 2019. The increase in gross profit was mainly due to the increase in our revenue by approximately RMB32.3 million, or 20.3%; partially net off by the increase in supplies and consumables and staff costs as mentioned above.

Our gross profit margin decreased by approximately 5.3 percentage points, from approximately 58.2% for the year ended 31 December 2018 to approximately 52.9% for the year ended 31 December 2019. The decrease was primarily as a result that we derived a higher percentage of our revenue from minimally-invasive aesthetic services and aesthetic dermatology services, which had lower gross profit margins than aesthetic surgery services, as a result of the replacement of certain aesthetic surgical procedures such as wrinkle reduction and alterations of the appearance of various parts of the face or body, such as nose and facial shape by minimally-invasive aesthetic services, thereby decreasing our proportion of gross profits from aesthetic surgery services from approximately 46.8% for the year ended 31 December 2018 to approximately 38.0% for the year ended 31 December 2019. Benefited from the growing acceptance of aesthetic medical services and our effective

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online marketing campaign promoting our aesthetic medical services, the proportion of gross profits from minimally-invasive aesthetic services and aesthetic dermatology services increased significantly from approximately 47.0% for the year ended 31 December 2018 to approximately 58.5% for the year ended 31 December 2019.

### ***Other Income and Gains***

Our other income and gains increased by approximately RMB1.0 million, or 1.7 times, from approximately RMB0.6 million for the year ended 31 December 2018 to approximately RMB1.6 million for year ended 31 December 2019. The increase was mainly attributable to the exchange gains of RMB0.7 million. In the first half of 2019, our Group received considerations for the Pre-Ipo Investments in HK dollars and US dollars. Due to the appreciation of HK\$ and US\$ against RMB, we recorded exchange gains during the year.

### ***Selling and Distribution Expenses***

Our selling and distribution expenses increased by approximately RMB5.5 million, or 12.3%, from approximately RMB44.7 million for the year ended 31 December 2018 to approximately RMB50.2 million for the year ended 31 December 2019. The increase was primarily attributable to the increase in staff costs of approximately RMB4.9 million. Our average number of selling and distribution staffs increased from 126 for the year ended 31 December 2018 to 154 for the year ended 31 December 2019 as a result of business growth.

### ***Administrative Expenses***

Our administrative expenses increased by approximately RMB14.9 million, or 80.5%, from approximately RMB18.5 million for the year ended 31 December 2018 to approximately RMB33.4 million for the year ended 31 December 2019. The increase was primarily attributable to the higher listing expenses incurred of approximately RMB15.3 million during the year ended 31 December 2019 for the preparation of the Listing, while the listing expenses for the year ended 31 December 2018 were approximately RMB2.3 million.

### ***Finance Costs***

Our finance costs decreased by RMB1.0 million, or 30.3%, from approximately RMB3.3 million for the year ended 31 December 2018 to approximately RMB2.3 million for the year ended 31 December 2019. The decrease was mainly due to all the liabilities and debts arising from the loan of approximately RMB33.3 million from an Independent Third Party which had been subsequently transferred to Mr. Fu and fully settled in December 2019.

### ***Income Tax Expense***

Our income tax expense decreased from approximately RMB8.0 million for the year ended 31 December 2018 to approximately RMB6.1 million for the year ended 31 December 2019. Our effective tax rates, which represented our income tax expenses over our profit



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before tax, were 30.2% for the year ended 31 December 2018 and 37.2% for the year ended 31 December 2019. The decrease in income tax expenses was mainly due to the decrease in profit before tax of our Group for the year ended 31 December 2019.

Our high effective tax rate during the year ended 31 December 2019 was mainly due to (i) tax losses and temporary differences not recognised arising from our offshore entities as a result of listing expenses; and (ii) effect of withholding tax on dividends.

### ***Profit and Total Comprehensive Income and Net Profit Margin for The Year***

Our profit and total comprehensive income for the year decreased by approximately RMB8.1 million or 44.0%, from approximately RMB18.4 million for the year ended 31 December 2018 to approximately RMB10.3 million for the year ended 31 December 2019. The decrease was mainly attributable to the increase in our gross profit by approximately RMB8.5 million, or 9.2%, partially net-off by the increase in our selling and distribution expenses by approximately RMB5.5 million or 12.3% and administrative expenses by approximately RMB14.9 million or 80.5% as discussed above.

Our net profit margin decreased by approximately 6.2 percentage points, from approximately 11.6% for the year ended 31 December 2018 to approximately 5.4% for the year ended 31 December 2019. The decrease was mainly due to the decrease in our gross profit margin of approximately 5.3 percentage points and the listing expenses incurred of approximately RMB15.3 million as discussed above.

As non-IFRS measures, our adjusted profit and total comprehensive income for the year increased by approximately RMB4.8 million or 23.1%, from approximately RMB20.8 million for the year ended 31 December 2018 to approximately RMB25.6 million for the year ended 31 December 2019. As non-IFRS measures, our adjusted net profit margin increased slightly by approximately 0.3 percentage points, from approximately 13.1% for the year ended 31 December 2018 to approximately 13.4% for the year ended 31 December 2019. For the details of calculation basis, please refer to the paragraph headed “Non-IFRS Measures” in this section.

### **Year ended 31 December 2018 as compared to year ended 31 December 2017**

#### ***Revenue***

Our revenue increased by approximately RMB46.0 million, or 40.7%, from approximately RMB112.9 million for the year ended 31 December 2017 to approximately RMB158.9 million for the year ended 31 December 2018. Such growth was supported by the increase in our active clients, meaning clients who had received at least one procedure in the relevant financial year, increased from approximately 29,200 for the year ended 31 December 2017 to 47,800 for the year ended 31 December 2018, representing significant growth of approximately 63.7%. The increase in revenue was driven by the increase in utilization rates across all aesthetic medical institutions in 2018. Our overall utilization rates increased from 46.9% in 2017 to 66.5% in 2018 which was mainly due to our timely adoption of the new business retail philosophy, which enabled us to capture our target group of clients.

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### *(i) Aesthetic Surgery Services*

Revenue from aesthetic surgery services increased slightly by approximately RMB0.8 million, or 1.4%, from approximately RMB56.7 million for the year ended 31 December 2017 to approximately RMB57.5 million for the year ended 31 December 2018 whereas our number of procedures performed increased significantly from approximately 4,837 to approximately 7,318, representing a growth of approximately 51.3%. In spite of our significant growth in number of procedures performed, our revenue derived from aesthetic surgery services only increased slightly by approximately RMB0.8 million because of the different types of surgeries performed during the year ended 31 December 2017 and 2018. In 2017, the majority of our revenue of aesthetic surgery services were derived from eye surgery and rhinoplasty and, in 2018, the proportion of eye surgery and rhinoplasty decreased because certain effects of eye surgery and rhinoplasty can be replaced by minimally-invasive aesthetic services such as wrinkle reduction and alterations of the appearance of various parts of the face or body, such as nose and facial shape, whereas the proportion of lipoplasty and fat transfer increased.

### *(ii) Minimally-invasive Aesthetic Services*

Revenue from minimally-invasive aesthetic services increased by approximately RMB11.4 million, or 39.4%, from approximately RMB28.9 million for the year ended 31 December 2017 to approximately RMB40.3 million for the year ended 31 December 2018 whereas the number of procedures performed increased significantly from approximately 22,595 in 2017 to approximately 44,948 in 2018, representing an exponential growth of approximately 98.9%. Such significant growth in both revenue and number of procedures performed was due to (i) our increase in number of customers; and (ii) the increasing popularity of minimally-invasive aesthetic services in replacement of aesthetic surgery services due to the lowered medical risk of non-surgical aesthetic procedures and shortened recovery time, compared with aesthetic surgery services.

### *(iii) Aesthetic Dermatology Services*

Revenue from aesthetic dermatology services increased by approximately RMB17.8 million, or 74.2%, from approximately RMB24.0 million for the year ended 31 December 2017 to approximately RMB41.8 million for the year ended 31 December 2018. The increase was mainly due to (i) the increase in number of services by approximately 85,809 times, or 93.4% from approximately 91,844 times in 2017 to approximately 177,653 times in 2018; and (ii) the introduction of new medical equipment for picosecond laser treatments which reduces pigmentation, improves skin texture and brightens skin tone in 2018.

### *(iv) Aesthetic Medical Management Consulting Services*

Revenue from aesthetic medical institution management consulting services increased from nil for the year ended 31 December 2017 to approximately RMB12.7 million for the year ended 31 December 2018. We began providing aesthetic medical institution consulting services to aesthetic medical institutions and physicians since December 2017 when we acquired Guangzhou Yingjieshi.

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### ***Cost of Sales***

Our cost of sales increased by approximately RMB28.0 million, or 72.9%, from approximately RMB38.4 million for the year ended 31 December 2017 to approximately RMB66.4 million for the year ended 31 December 2018. The increase was mainly attributable to:

- (i) the increase in cost of supplies consumed of approximately RMB14.9 million, or 76.8%, which was primarily contributed by approximately RMB10.2 million increase in medical consumables mainly comprising hyaluronic acid used in minimally-invasive aesthetic services and approximately RMB4.7 million increase in pharmaceuticals mainly driven by the increase in botulinum toxin type A also to support the growth in minimally-invasive aesthetic services.
- (ii) the increase in staff costs of approximately RMB10.8 million, or 72.5%, mainly due to the expansion of our aesthetic dermatology services. Our number of dermatology service rooms increased from 32 as at 31 December 2017 to 47 as at 31 December 2018. At the same time, our average number of staff increased from 114 for the year ended 31 December 2017 to 130 for the year ended 31 December 2018 to support our business expansion.

### ***Gross Profit and Gross Profit Margin***

Our gross profit increased by approximately RMB18.0 million, or 24.2%, from approximately RMB74.5 million for the year ended 31 December 2017 to approximately RMB92.5 million for the year ended 31 December 2018. The increase in gross profit was mainly due to the increase in our revenue by approximately RMB46.0 million, or 40.7%; partially net off by the increase in supplies and staff costs as mentioned above.

Our gross profit margin decreased by approximately 7.8 percentage points, from approximately 66.0% for the year ended 31 December 2017 to approximately 58.2% for the year ended 31 December 2018. The decrease was primarily as a result that (i) we began to provide consulting services to aesthetic medical institutions and physicians starting from December 2017, which had a lower overall gross profit margin of approximately 42.1% and contributed to approximately 8.0% of our total revenue in the year ended 31 December 2018; and (ii) gross profit margin from aesthetic dermatology services decreased by approximately 10.0 percentage points, from approximately 73.2% for the year ended 31 December 2017 to approximately 63.2% for the year ended 31 December 2018. The decrease was due to our pricing strategy to increase competitiveness of our services to boost traffic.

### ***Selling and Distribution Expenses***

Our selling and distribution expenses increased by approximately RMB7.7 million, or 20.8%, from approximately RMB37.0 million for the year ended 31 December 2017 to approximately RMB44.7 million for the year ended 31 December 2018. The increase was primarily attributable to (i) the increase in promotion and marketing expenses of approximately RMB7.6 million, mainly due to the increase in online advertisements displayed on the e-commerce online platforms; net-off by (ii) the decrease in staff costs of

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approximately RMB1.6 million. Our average number of selling and distribution staff increased from 113 for the year ended 31 December 2017 to 126 for the year ended 31 December 2018 because of adjustment in our staff structure where certain on-site consultants were replaced by online consultants and on-site client service personnel, which were of lower salary.

### ***Administrative Expenses***

Our administrative expenses increased by approximately RMB6.1 million, or 49.2%, from approximately RMB12.4 million for the year ended 31 December 2017 to approximately RMB18.5 million for the year ended 31 December 2018. The increase was primarily attributable to (i) the listing expenses incurred of approximately RMB2.3 million for the year ended 31 December 2018; and (ii) increase in staff costs of approximately RMB2.6 million. Our average number of administrative staff increased from 45 for the year ended 31 December 2017 to 112 for the year ended 31 December 2018, mainly due to the acquisition of Guangzhou Yingjieshi on 19 December 2017.

### ***Finance Costs***

Our finance costs increased by approximately RMB1.9 million, or 1.4 times, from approximately RMB1.4 million for the year ended 31 December 2017 to approximately RMB3.3 million for the year ended 31 December 2018. The increase was mainly due to interest incurred on a loan of RMB33.3 million originally obtained from an Independent Third Party in May 2018. All the liabilities and debts arising from such loan have been subsequently transferred to Mr. Fu.

### ***Income Tax Expense***

Our income tax expense increased from approximately RMB5.9 million for the year ended 31 December 2017 to approximately RMB8.0 million for the year ended 31 December 2018. Our effective tax rates were 25.4% for the year ended 31 December 2017 and 30.2% for the year ended 31 December 2018. The increase in income tax expenses was mainly due to the increase in profit before tax of our Group for the year ended 31 December 2018. Our high effective tax rates during the year ended 31 December 2018 were due to the effect of withholding tax on dividends.

### ***Profit and Total Comprehensive Income and Net Profit Margin for the Year***

Our profit and total comprehensive income increased slightly by approximately RMB1.0 million or 5.7%, from approximately RMB17.4 million for the year ended 31 December 2017 to approximately RMB18.4 million for the year ended 31 December 2018. The slight increase was mainly attributable to the increase in our gross profit by approximately RMB18.0 million, or 24.2%, partially net-off by the increase in our selling and distribution expenses by 20.8% and administrative expenses by approximately 49.2% as discussed above.

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Our net profit margin decreased slightly by approximately 3.8 percentage points, from approximately 15.4% for the year ended 31 December 2017 to approximately 11.6% for the year ended 31 December 2018. The decrease was mainly due to the decrease in our gross profit margin of approximately 7.8 percentage points as discussed above.

As non-IFRS measures, our adjusted profit and total comprehensive income for the year increased by approximately RMB3.4 million or 19.5%, from approximately RMB17.4 million for the year ended 31 December 2017 to approximately RMB20.8 million for the year ended 31 December 2018. As non-IFRS measures, our adjusted net profit margin decreased slightly by approximately 2.3 percentage points, from approximately 15.4% for the year ended 31 December 2017 to approximately 13.1% for the year ended 31 December 2018. For the details of calculation basis, please refer to the paragraph headed “Non-IFRS Measures” in this section.

### SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Property, plant and equipment

The following table sets forth our property, plant and equipment as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Machinery equipment	6,003	12,234	15,510	14,951
Office and other equipment	1,501	1,605	1,357	1,155
Leasehold improvements	3,039	3,812	6,038	5,054
Motor vehicles	875	740	1,214	1,043
Construction in process	—	672	—	—
	<u>11,418</u>	<u>19,063</u>	<u>24,119</u>	<u>22,203</u>

Our property, plant and equipment principally consisted of machinery equipment and leasehold improvements. Depreciation is calculated on the straight-line basis to its residual value with annual rates ranged from 20% to 33.3%. Our machinery equipment mainly represented machinery equipment for our aesthetic dermatology services, including energy-based devices such as laser, radiofrequency, intense pulsed light equipment, semiconductor laser therapeutic equipment and for aesthetic surgery service equipment, including liposuction machine.

Our machinery equipment increased by approximately RMB6.2 million, or approximately 103.3%, from approximately RMB6.0 million as at 31 December 2017 to approximately RMB12.2 million as at 31 December 2018 and further to RMB15.5 million as at 31 December 2019. The increase in both years was primarily due to the additions of machinery equipment of approximately RMB8.8 million and RMB6.7 million respectively which were mainly due to the purchase of machinery equipment for picosecond laser

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treatment to reduce pigmentation, improve skin texture and brighten skin tone. During the six months ended 30 June 2020, our Group did not purchase any significant machinery equipment.

Our leasehold improvements increased by approximately RMB2.2 million mainly due to the renovation and expansion of Ruian Raily and Hangzhou Raily during the year ended 31 December 2019.

### Intangible assets

Our intangible assets mainly represented software, which are measured on initial recognition at cost and are subsequently amortised on the straight-line basis over the economic useful life and will be assessed for impairment whenever there is an indication that the intangible asset may be impaired. During the Track Record Period, our Group did not identify any indicator of impairment of the business to which these intangible assets relate, thus no impairment tests for such intangible assets were performed.

### Right-of-use asset

Our right-of-use asset mainly represented lease contracts for working space used in our operations.

Right-of-use assets are recognised at the commencement date of the lease, and are measured at cost, less any accumulated depreciation and any impairment loss, and adjusted for any remeasurement of lease liabilities. The following table sets out the movement of our right-of-use assets during the Track Record Period:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of year	16,935	13,853	27,401	25,121
Additions	100	17,133	4,542	400
Depreciation expense	(3,182)	(3,585)	(5,902)	(2,920)
Derecognition	—	—	(920)	—
Carrying amount at end of year	<u>13,853</u>	<u>27,401</u>	<u>25,121</u>	<u>22,601</u>

Additions of approximately RMB17.1 million during the year ended 31 December 2018 mainly represented the recognition of right-of-use asset upon the renewal or newly signed lease agreement of operating space of (i) the renewal of lease for our Hangzhou Raily; and (ii) Ruian Raily for the expansion of our aesthetic medical institution.



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Additions of approximately RMB4.5 million during the year ended 31 December 2019 mainly represented the recognition of right-of-use asset upon the newly signed lease agreement of operating space of Wuhu Raily for the expansion of our aesthetic medical institution.

Derecognition of approximately RMB0.9 million during the year ended 31 December 2019 was mainly a result of an early termination in lease agreement of Guangzhou Yingjieshi in September 2019 to move to a new office space.

### Goodwill

We recorded goodwill in the amount of approximately RMB20.6 million as at 31 December 2017, 2018 and 2019 and approximately RMB20.2 million as at 30 June 2020, in connection with the acquisitions of our subsidiaries, Raily Tiange, Hangzhou Raily, Wuhu Raily and Guangzhou Yingjieshi. Goodwill reflects the difference between (i) the consideration paid during the acquisitions and any fair value of the Group's previously held equity interests in the acquiree; and (ii) the adjusted identifiable net assets acquired and liabilities assumed. The purchase prices in the acquisitions were determined after arm's-length negotiations.

The following table sets forth the breakdown of goodwill by subsidiaries and circumstances leading to the recognition of our goodwill:

	<b>Goodwill</b> <i>(RMB million)</i>	<b>Circumstances leading to the recognition of goodwill</b>
Hangzhou Raily	6.1	In May 2015, our controlling shareholder acquired additional 20% equity interest of Hangzhou Raily at a cash consideration of approximately RMB1.0 million. Upon completion of such equity interests transfer, Hangzhou Raily was directly owned by our controlling shareholder as to 65% and became our subsidiary.
Raily Tiange	11.6	In October 2016, Raily Beauty Consultation acquired 60% equity interests of Raily Tiange at a cash consideration of RMB11.1 million. Upon completion of such equity interests transfer, Raily Tiange became the Group's wholly-owned subsidiary.

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<b>Goodwill</b> <i>(RMB million)</i>	<b>Circumstances leading to the recognition of goodwill</b>
Wuhu Raily	2.5 In October 2016, together with a trust agreement entered into by Mr. Fu and Ms. Zhu Haiyan, pursuant to which Ms. Zhu Haiyan agreed to hold 78% equity interests of Wuhu Raily on trust for Mr. Fu, the Group completed the acquisition of a 33% equity interest in Wuhu Raily at a cash consideration of approximately RMB0.3 million, upon which Wuhu Raily became the subsidiary of the Group.
Guangzhou Yingjieshi	0.4 In December 2017, the Group acquired the entire interest of Guangzhou Yingjieshi for a cash consideration of approximately RMB2.5 million. Guangzhou Yingjieshi became our wholly-owned subsidiary.

For the purposes of impairment testing, goodwill acquired through business combinations had been allocated to two cash generating units:

***(i) Aesthetic medical services cash-generating unit***

The recoverable amount of the aesthetic medical services cash-generating units 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 our senior management. The discount rates applied to the cash flow projections were 14.2%, 15.3%, 15.4% and 15.2% for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. The growth rate used to extrapolate the cash flows of the aesthetic medical services cash-generating units beyond the five-year period was 3.0%, which was also an estimate of the long-term rate of inflation.

***(ii) Consulting services cash-generating unit***

The recoverable amount of the consulting services cash-generating units 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 rates applied to the cash flow projections were 15.3%, 13.4%, 14.6% and 14.8% for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively. The growth rate used to extrapolate the cash flows of the consulting services cash-generating units beyond the five-year period was 3.0%, which was also an estimate of the long-term rate of inflation.

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Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Our Group performs its annual impairment test of goodwill as at the end of year. We did not recognise any impairment loss during the three years ended 31 December 2019.

During the six months ended 30 June 2020, the business performance of management consulting services was severely and adversely affected by the COVID-19 pandemic. As at 30 June 2020, the recoverable amount of the management consulting services cash-generating unit was lower than its carrying amount, the goodwill generated from the acquisition of Guangzhou Yingjieshi of RMB0.4 million was impaired.

The carrying amounts of goodwill allocated to each of the cash-generating units were as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Aesthetic medical services	20,210	20,210	20,210	20,210
Consulting services	<u>429</u>	<u>429</u>	<u>429</u>	<u>—</u>
	<u>20,639</u>	<u>20,639</u>	<u>20,639</u>	<u>20,210</u>

### *Sensitivity to changes in key assumptions*

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the recoverable amount of the aesthetic medical services cash-generating units exceeded its carrying amount by approximately RMB119.2 million, RMB91.5 million, RMB99.1 million and RMB85.9 million, respectively. As at 31 December 2017, 2018 and 2019, the recoverable amount of the aesthetic management consulting services cash-generating units exceeded its carrying amount by approximately RMB0.3 million, RMB0.4 million and RMB0.3 million, respectively. As at 30 June 2020, the recoverable amount of the consulting services cash-generating units was lower than its carrying amount by approximately RMB0.5 million.

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The following table sets forth the impact of reasonable possible changes in each of the key assumptions, with all other variables held constant, of goodwill impairment testing of our Group as of the dates indicated.

Possible changes of key assumptions	Recoverable amount of the cash generating unit exceeds its carrying amount by			
	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Aesthetic medical services cash-generating units				
Pre-tax discount rate increase by 1%	107,296	83,065	89,890	76,950
Long-term growth rate decrease by 1%	112,406	86,505	93,060	79,600
Consulting services cash-generating units				
Pre-tax discount rate increase by 1%	131	171	31	N/A
Long-term growth rate decrease by 1%	212	242	189	N/A

In the opinion of our Directors, the goodwill of consulting services cash-generating units was fully impaired as at 30 June 2020. The impairments of goodwill and property, plant and equipment generated by aesthetic management consulting services of approximately RMB0.4 million and RMB0.1 million were recognised for the six months ended 30 June 2020 due to the shrinking consulting business of Guangzhou Yingjieshi. The recoverable amount of the cash-generating units was approximately RMB0.6 million and the carrying amount of the goodwill and related assets of the cash-generating units was approximately RMB1.0 million.

For aesthetic medical services cash-generating unit, if the discount rate rose to approximately 45% as at 30 June 2020 (2019: 61%, 2018: 61%, 2017: 84%), with other assumptions remaining unchanged, the recoverable amount of the cash-generating units would be decreased to the carrying amount of goodwill and other related long-term assets. Except for this, any reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not affect our management's view on impairment as at 31 December 2017, 2018 and 2019 and 30 June 2020.

Please refer to Note 15 to the Accountants' Report set out in Appendix I to this prospectus for more details of the impairment testing of goodwill performed.

### Equity investments designated at fair value through other comprehensive income

On 16 December 2019, our Shenzhen Ruiquan entered into an equity interest investment agreement (the "Investment Agreement") with an individual seller (who is the controlling shareholder of Jiumei Xinhe and an Independent Third Party) and Jiumei Xinhe, pursuant to which Shenzhen Ruiquan shall acquire from such seller 10% equity interests in Jiumei Xinhe at a consideration of RMB6.0 million. The consideration was determined with reference to the business valuation of Jiumei Xinhe considering its

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estimated future performance. The acquisition was completed on 27 December 2019. Pursuant to the Investment Agreement, Shenzhen Ruiquan and its associates was granted the license to use the trademark and brand image associated with Chuzhen Facial Implant.

The unlisted equity investments in Jiumei Xinhe (the “**unlisted equity investments**”) were designated at fair value through other comprehensive income as at 30 June 2020 of which no quoted prices in an active market exist. In relation to the valuation of the unlisted equity investments, our Directors, based on the professional advice received, adopted, among others, the following procedures but not limited to, (i) obtained and reviewed the relevant documents of Jiumei Xinhe, including the business registration certificate, the Registration Certificate for Medical Device, management accounts, profit forecast and material distribution agreements; (ii) conducted background search on Jiumei Xinhe and noted that Jiumei Xinhe was not involved in any historical nor ongoing litigation cases; (iii) obtained and reviewed the exclusive distribution agency agreement entered into by Jiumei Xinhe and the manufacturer of Chuzhen Facial Implant and noted that Jiumei Xinhe is the exclusive distributor of Chuzhen Facial Implant in the PRC; (iv) engaged an independent third-party business valuer (the “**Valuer**”) to conduct a valuation on the value of Jiumei Xinhe based on historical financial and operational data of Jiumei Xinhe, business forecast and profit forecast of Jiumei Xinhe and analysis of market comparable companies of Jiumei Xinhe; and (v) checked the independence of the Valuer by performing background search of the Valuer; and obtained the copies of the expert qualification of the Valuer to verify its qualifications. Based on the aforementioned due diligence performed by our Directors before making the investment in Jiumei Xinhe, our Directors are of the view that the valuation analysis performed by the Valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of the unlisted equity investments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Note 38 to the historical financial information of Group for the Track Record Period as set out in the Accountants’ Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The Reporting Accountants’ opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on page I-2 of Appendix I.

In relation to the valuation analysis performed by the Valuer on the unlisted equity investments, the Sole Sponsor has conducted relevant due diligence work, including but not limited to, (i) obtained and reviewed copies of the documents mentioned in the due diligence performed by our Directors stated above, including the business valuation prepared by the Valuer of Jiumei Xinhe; (ii) reviewed the basis and the key assumptions used by the Valuer; (iii) conducted due diligence discussions with Frost & Sullivan in order to understand the nature, the market positioning and business prospects of Chuzhen Facial Implant, the products of Jiumei Xinhe, in the PRC; (iv) performed public search on both Jiumei Xinhe and the Valuer, the results of which casted no doubt on their independence with the Group and its connected persons; and (v) checked the qualification of the Valuer to verify the

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competence and qualification of the Valuer. Having considered the work completed by the Directors and the relevant due diligence completed by the Sole Sponsor as stated above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation analysis performed by the Valuer on the unlisted equity investments.

### Supplies

Our supplies consisted of medical consumables and pharmaceuticals. The following table sets forth our supplies balances as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Medical consumables	3,559	4,973	7,247	5,267
Pharmaceuticals	<u>618</u>	<u>1,114</u>	<u>647</u>	<u>1,269</u>
	<u>4,177</u>	<u>6,087</u>	<u>7,894</u>	<u>6,536</u>

Our medical consumables mainly represented (i) implants and auxiliary materials used in our aesthetic surgery services; (ii) hyaluronic acid used in our minimally-invasive aesthetic services; and (iii) skincare products used in our aesthetic dermatology services.

Our pharmaceuticals mainly represented botulinum toxin type A used in our minimally-invasive aesthetic services.

Our supplies increased from approximately RMB4.2 million as at 31 December 2017 to approximately RMB6.1 million as at 31 December 2018, mainly due to the increase in medical consumables balances of approximately RMB1.4 million. Our supplies then further increased to approximately RMB7.9 million as at 31 December 2019, mainly due to the increase in medical consumable balances of approximately RMB2.2 million. The increase in both years was to support our business growth.

Our supplies then decreased to approximately RMB6.5 million as at 30 June 2020, mainly due to the decrease in medical consumable balances by approximately RMB2.0 million. As a result of the uncertainties surrounding the COVID-19 pandemic and the negative consumer spending sentiment, our management maintained a lower supplies level as part of the cost control measures.



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The table below sets out our average supplies turnover days for the relevant years and periods indicated:

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June 2020
Average supplies turnover days ( <i>Note</i> )	<u>36.0</u>	<u>28.2</u>	<u>28.3</u>	<u>38.1</u>

*Note:* Average supplies turnover days are calculated as the average of the beginning and ending supplies balances for the year/period, divided by the cost of sales for that year/period, multiplied by 365/182 days.

For the three years ended 31 December 2019, our average supplies turnover days were 36.0, 28.2 and 28.3 days, respectively. The decrease in our average supplies turnover days was mainly due to our better supplies control. For the six months ended 30 June 2020, our average supplies turnover days increased to 38.1 days, which was caused by our temporary suspension of operation during the first half of 2020 due to the COVID-19 pandemic and the accidental sewage piping leakage in Raily Tiange.

As at 31 October 2020, approximately RMB4.6 million, or 70.0% of our supplies as at 30 June 2020 had been subsequently utilized.

### Trade Receivables

Trade receivables comprised (i) our receivables from third-party e-commerce platforms, which represented payments received by our online shops on a number of third party online payment platforms. For clients who have purchased our services through our online shops, they will be asked to verify their online purchases prior to receiving treatment at our aesthetic medical institutions. Only upon the on-site verification would we be entitled to collect such payment from our clients; (ii) outstanding amounts due from aesthetic medical institutions and physicians for our aesthetic medical institution management consulting services; and (iii) our receivables from third-party online payment channels through which our clients settled our services fees. Generally, we would retrieve our collections from such e-commerce online platforms and online payment channels to our bank accounts from time to time since (a) we are able to retrieve collections from such e-commerce online platforms and online payment channels within a short period of time, where the average trade receivable turnover days from third-party e-commerce platforms were 9.2, 6.3, 8.7 and 17.6 days, respectively, during the Track Record Period; and (b) we maintained a low level of balances in the accounts of such e-commerce online platforms and online payment channels in order to settle, among others, the corresponding services fees incurred by using those e-commerce online platforms. Such balances represented only approximately 3.3%, 2.0%, 3.5% and 2.8% of our total assets as at 31 December 2017, 2018 and 2019 and 30 June 2020. As of 31 December 2017, 2018, 2019 and 30 June 2020, we had trade receivables of RMB4.4 million, RMB5.1 million, RMB8.3 million and RMB5.4 million, respectively.

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	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	4,559	5,278	8,437	5,512
Impairment	(178)	(181)	(116)	(94)
	<u>4,381</u>	<u>5,097</u>	<u>8,321</u>	<u>5,418</u>

The following table sets forth an aging analysis of our trade receivables based on invoice date as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	3,862	4,167	7,536	5,072
4 to 6 months	447	586	724	246
7 to 12 months	72	344	61	94
1 to 2 years	—	—	—	6
	<u>4,381</u>	<u>5,097</u>	<u>8,321</u>	<u>5,418</u>

The following table sets forth an aging analysis of our trade receivables based on due date as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Not yet due	4,071	2,509	7,329	4,778
1 to 3 months	220	889	752	389
4 to 6 months	90	869	180	100
7 to 12 months	—	830	60	151
	<u>4,381</u>	<u>5,097</u>	<u>8,321</u>	<u>5,418</u>

Our trade receivables increased from approximately RMB4.4 million as at 31 December 2017 to approximately RMB5.1 million as at 31 December 2018, and further to approximately RMB8.3 million as at 31 December 2019 as a result of our business growth. Our trade receivables then decreased to approximately RMB5.4 million as at 30 June 2020 as a result of the subsequent settlement from clients.

Our trading terms with management consulting clients are mainly on credit. The credit period is generally 30–90 days for our major clients.

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The table below sets out our average trade receivable turnover days for the relevant years and period indicated:

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June 2020
Average trade receivable turnover days ( <i>Note</i> )	<u>11.9</u>	<u>10.9</u>	<u>13.3</u>	<u>21.3</u>

*Note:* Average trade receivable turnover days are calculated as the average of the beginning and ending trade receivable balances for the year/period, divided by the revenue for that year/period, multiplied by 365/182 days.

For the three years ended 31 December 2019, our average trade receivables turnover days were 11.9, 10.9, 13.3 days respectively, which remained stable throughout the Track Record Period and were within our credit period granted.

For the six months ended 30 June 2020, our average trade receivables turnover days increased to 21.3 days due to slower settlement process from our management consulting clients, which was adversely affected by the COVID-19 pandemic.

As at 31 October 2020, approximately RMB4.1 million, or 74.4% of our trade receivables as at 30 June 2020 had been subsequently settled.

### Prepayments, other receivables and other assets

The following table sets forth our prepayments, other receivables and other assets as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for supplies	1,408	1,071	1,736	1,534
Prepayments for services	1,908	5,801	9,275	6,108
Prepaid expense	1,499	1,578	937	4,581
Deposits	1,341	1,575	3,382	6,411
Others	<u>2,485</u>	<u>786</u>	<u>587</u>	<u>1,117</u>
	8,641	10,811	15,917	19,751
Impairment	<u>(384)</u>	<u>(76)</u>	<u>(155)</u>	<u>(395)</u>
	<u>8,257</u>	<u>10,735</u>	<u>15,762</u>	<u>19,356</u>

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Our prepayments for supplies primarily represented prepayments to our suppliers for botulinum toxin A and hyaluronic acid used in our minimally-invasive aesthetic services. Our prepayments for services primarily represented prepayments to (i) professional parties for the preparation of Listing; (ii) third-party e-commerce platforms for advertising services which will be recognised as expense when services were provided; and (iii) employment agent in relation to the labour dispatch arrangements. Since August 2019, we have ceased all labour dispatch activities under the labour dispatch agreements with our employment agents.

Prepaid expenses primarily represented prepayments that will be subsequently amortised throughout an agreed period of time. During the six months ended 30 June 2020, our Group paid to an advertising services provider in the aggregate sum of approximately RMB2.7 million for placement of out-of-home advertisements. As a result, our prepaid expense increased significantly to RMB4.6 million as at 30 June 2020.

Our deposits mainly represent (i) rental deposits; and (ii) the deposits to Jiumei Xinhe for the non-exclusive sales and distribution of Chuzhen Facial Implant. Deposits increased to RMB3.4 million as at 31 December 2019 after the payment of deposit for Zhejiang Province, and further increased to RMB6.4 million as at 30 June 2020 after the payment of deposit for Anhui Province and Shanghai City during the first half of 2020. For the details of the Agency Agreements with Jiumei Xinhe, please refer to section headed “Business — Our Strategies — Vertical integration through strategic acquisition and investment” in this prospectus.

### Due from/to the controlling shareholder and related companies

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<b>Due from the controlling shareholder</b>				
Mr. Fu	<u>5,856</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Due from related companies</b>				
Ningbo Ruixuan	300	—	—	—
Ruide BVI	<u>—</u>	<u>325</u>	<u>865</u>	<u>—</u>
	<u>300</u>	<u>325</u>	<u>865</u>	<u>—</u>
<b>Due to the controlling shareholder</b>				
Mr. Fu	<u>—</u>	<u>8,854</u>	<u>1,672</u>	<u>5</u>
<b>Due to related companies</b>				
Handan Guangshu	—	4,800	—	—
Ningbo Ruixuan	<u>—</u>	<u>880</u>	<u>245</u>	<u>—</u>
	<u>—</u>	<u>5,680</u>	<u>245</u>	<u>—</u>

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### *Due from/to the controlling shareholder*

We had approximately RMB5.9 million amounts due from Mr. Fu as at 31 December 2017 and RMB8.9 million and RMB1.7 million due to Mr. Fu as at 31 December 2018 and 2019. Our amount due to Mr. Fu was largely settled as at 30 June 2020. The amounts were unsecured, interest-free and repayable on demand.

Set forth below a summary of the movements in our amounts due (from)/to Mr. Fu, our controlling shareholder:

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<b>At the beginning of the year/period</b>	1,430	(5,856)	8,854	1,672
Changes from financing cash flows:				
Dividends paid — last year	—	—	(840)	—
Change from investing cash flows:				
Cash paid to the controlling shareholder	(15,041)	(21,127)	(6,342)	(1,667)
Changes from non-cash activities:				
Settlement of consideration for various steps of Reorganization	7,530	—	—	—
From acquisition of subsidiary	225	—	—	—
Dividends declared	—	840	—	—
Net off with loan from independent third party	—	34,997	—	—
<b>At the end of the year/period</b>	<u>(5,856)</u>	<u>8,854</u>	<u>1,672</u>	<u>5</u>

### *Cash paid to the controlling shareholder*

During the year ended 31 December 2017, we paid cash of RMB15.0 million to Mr. Fu for various purposes including repayment of personal loans, acquisition of minority interests in Guangzhou Yingjieshi, personal investment such as purchase of properties and loans/capital injections made to his wholly or non-wholly owned companies, loans to relatives and the settlement of our amounts due to Mr. Fu during the year arising from the Reorganization.

During the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, we paid cash of RMB21.1 million, RMB6.3 million and RMB1.7 million to Mr. Fu for the settlement of our amounts due to Mr. Fu as at 31 December 2017, 2018 and 2019.

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### *Settlement of consideration for various steps of Reorganization*

During the year ended 31 December 2017, we acquired from Mr. Fu a 78% equity interest of Wuhu Raily, 100% equity interest of Ruian Raily, 45% equity interest of Hangzhou Raily at considerations of RMB0.8 million, RMB2.0 million and RMB2.3 million, respectively. We also obtained a loan of RMB2.5 million from Mr. Fu for the acquisition of 100% equity interest of Guangzhou Yingjieshi. For details, please refer to the section headed “History and Reorganization”.

### *Net off with loan from independent third party*

An aggregate sum of approximately RMB35.0 million originally obtained from an Independent Third Party was subsequently assigned to Mr. Fu in December 2018.

The borrowings represented the proposed initial pre-IPO investment amount from a potential pre-IPO investor of our Company introduced to Mr. Fu since 2017, and an Independent Third Party, which is a limited liability partnership with one of the focuses in medical and health technology related industry. On 25 May 2018, our Company, Raily Beauty Consultation, Mr. Fu, Ruide BVI and the Independent Third Party entered into an investment agreement and its supplemental agreement, and Raily Beauty Consultation, Mr. Fu, Handan Guangshu, Raily HK and the Independent Third Party entered into a loan agreement (together the “**Relevant Agreements**”). Pursuant to the Relevant Agreements, the Independent Third Party agreed to invest approximately RMB70.0 million for 10.42% shareholding of our Company, subject to certain conditions precedent, including the completion of outbound direct investment procedures. As earnest money from the Independent Third Party to support to the continuous development and expansion of the Raily Beauty Consultation and its subsidiaries (including the Company) from the date of signing the Relevant Agreements to completion of the investment and pursuant to the Relevant Agreements, the Independent Third Party provided a loan of RMB33.3 million to Raily Beauty Consultation on 25 June 2018, notwithstanding that the conditions precedent to the completion had not been completed at that time. It was agreed that this amount of RMB33.3 million shall become part payment for the proposed pre-IPO investment upon the conditions precedent being satisfied. The amount of RMB33.3 million had been utilized by Raily Beauty Consultation for renovation of aesthetic medical institutions, purchases of equipment and other corporate purposes. Subsequently, the intended pre-IPO investment did not complete because the Independent Third Party was not able to complete the outbound direct investment procedures for the reason as follows. In April 2018, the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (關於規範金融機構資產管理業務的指導意見(銀發[2018]106號)) was introduced in the PRC which imposed more rigorous requirements on financial institutions regarding the management and use of entrusted assets. One of the limited partners of such Independent Third Party was not able to show fund source to the satisfaction of the relevant authority in the PRC, as its fund was actually derived from asset management product of a financial institution which was ultimately sourced from different individuals who entrusted their money to the financial institution for investment. As a result, the Independent Third Party was not able to complete the outbound direct investment procedures in accordance with the Relevant Agreements and thus failed to become a pre-IPO investor of our Company. Under the Relevant Agreements, the parties then agreed that the amount totaling RMB33.3 million (which was already paid to Raily Beauty Consultation) shall remain payable as borrowing principal owed to the Independent Third Party by Raily Beauty Consultation. In order to fulfill the requirements stipulated in the agreement entered into among Shanghai Paibo,



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Huamei Medical, Shanghai Donghua, Mr. Fu, Ruide BVI, Raily Beauty Consultation, Beauty Milkway, Youxin Management and our Company that the outstanding liabilities of our Company to any third parties shall not exceed RMB15.0 million, the amount totaling RMB35.0 million, consisting of RMB33.3 million as borrowing principal and its interest of RMB1.7 million (the “**Loans**”), were subsequently assigned from Raily Beauty Consultation to Mr. Fu. On 30 December 2018, Raily Beauty Consultation, Mr. Fu, Handan Guangshu, Raily HK and the Independent Third Party entered into a loan assignment agreement, pursuant to which, Raily Beauty Consultation’s obligations to repay the Loans were transferred to Mr. Fu, and Raily Beauty Consultation was fully discharged with its liability to repay the Loans to the Independent Third Party. As a result, the Loans were re-categorized from other payables to “amount due to the Controlling Shareholder”. It was agreed that Mr. Fu shall repay the Loans together with interest at an interest rate of 10% per annum within the extended repayment period from 30 June 2020 to 30 December 2020. It was further agreed that the repayment period can be further extended with the written consent of the Independent Third Party. As at the Latest Practicable Date, the Loans due from Mr. Fu to the Independent Third Party have not yet been repaid, and Mr. Fu expects to repay the Loans in full by 30 December 2020, subject to any further agreement between the parties.

### *Due to related companies*

Amounts due to related companies as at 31 December 2018 were primarily unpaid dividend to Handan Guangshu and Ningbo Ruixuan.

All of our amounts due from/to the controlling shareholder and related companies will be subsequently settled prior to our Listing using internally generated funds.

### **Debt investments at amortised cost**

The following table sets forth a summary of our debt investments at amortised cost as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Debt investments at amortised cost	—	—	11,055	11,110

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Our debt investments at amortised cost represented financial investment products purchased from commercial banks in the PRC. As at 31 December 2019, the balance represented structural debt investment products purchased from a commercial bank with the principal amount of approximately RMB11.0 million, denominated in RMB, principal-protected and with expected yield rates ranging from 2.0% to 3.75% per annum as at 31 December 2019 and 30 June 2020, respectively.

### **Other current financial assets**

Our other current financial assets represented investments measured at fair value through profit or loss. As at 30 June 2020, the balance of RMB5.4 million represented financial investment products purchased by Raily Tiange from a commercial bank in the PRC with expected yield rates ranging from 1.6% to 5.0% per annum as at 30 June 2020.

### **Internal control measures in relation to financial investment products**

In respect of our investments in financial investment products, we have implemented internal control measures to monitor and control our investment risks and adopted the treasury policy which set out the framework for managing our financial assets. Our investment decision is made on a case by case basis after due and careful consideration of a number of factors, including the investment amount, the duration of investment, credibility of financial institutions, the level of risk exposure, the available investment vehicles, the purchase cost of the instrument, the potential benefit and loss of the instrument and the expected market trends.

Our treasury policy includes, among other things, (i) investment should be undertaken only in situations where our Group has surplus cash not required for our short-term working capital purposes; (ii) investments in high-risk products are not permitted; and (iii) criteria for selecting investments to be considered by our senior management include duration of investment, liquidity, risk and expected yield. Our finance department is responsible for treasury management functions, which include, amongst others, researching and sourcing investment options for further consideration by the executive Directors, financial controller and our Board, and monitoring the investments on a continuous basis. We primarily invest in low risk investment products with relatively stable returns at licensed banks or financial institutions when our cash balance is sufficient for our Group's capital expenditure and working capital for operations. Investment decisions are recommended by our finance department, which are passed to two executive Directors for approval. Further, during the term of the investment products, the finance department is responsible for monitoring and recording the returns generated from the investment products on a daily basis and preparing a monthly report for the financial controller to review. We will keep in close contact with the licensed financial institution who issues the investment products, monitor the performance of the investment products, strengthen risk control and supervision, and strictly control the safety of funds.

Going forward, we plan to strictly implement our investment and treasury policy and, as part of our investment and treasury management, may continue to invest in financial investment products that meet our criteria where we believe to be prudent after the Listing.

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### Deferred Tax Assets

Our deferred tax assets increased from approximately RMB3.2 million as at 31 December 2017 to approximately RMB5.1 million as at 31 December 2018 mainly as a result of the deferred tax credit of approximately RMB0.9 million arising from the increase in refund liabilities and the accrued payroll and others of approximately RMB0.4 million.

Our deferred tax assets further increased to approximately RMB8.7 million as at 31 December 2019 and RMB10.0 million as at 30 June 2020 mainly due to the deferred tax credit arising from loss available for offsetting against future profits by approximately RMB2.9 million and RMB0.8 million, respectively. The tax losses at the end of each financial period during the Track Record Period mainly represented accumulated tax losses incurred by Raily Beauty Consultation, which was mainly involved in management and consulting service for intra-group companies. During the year ended 31 December 2019 and the six months ended 30 June 2020, in order to support the business expansion of the Group, and the preparation of the proposed Listing, more expenses including certain listing expenses, salary and office expenses were incurred by Raily Beauty Consultation, resulting in a significant increase in the accumulated tax losses of Raily Beauty Consultation.

The Directors of the Group are of the view that with the optimization of the business within the Group, Raily Beauty Consultation will generate enough tax profit in the future to utilize its tax losses, therefore relevant deferred tax assets were recognized.

### Trade Payables

Trade payables primarily represented outstanding amounts due to our suppliers. As 31 December 2017, 2018, 2019 and 30 June 2020, we had trade payables of RMB6.0 million, RMB6.5 million, RMB8.5 million and RMB10.3 million, respectively.

The following table sets forth an aging analysis of our trade payables as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within 90 days	3,555	3,560	5,022	5,623
91 to 180 days	1,393	476	877	938
181 to 365 days	491	741	730	2,013
Over 365 days	<u>514</u>	<u>1,686</u>	<u>1,846</u>	<u>1,749</u>
	<u>5,953</u>	<u>6,463</u>	<u>8,475</u>	<u>10,323</u>

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Our trade payables increased from approximately RMB6.0 million as at 31 December 2017 to approximately RMB6.5 million as at 31 December 2018, then to approximately RMB8.5 million as at 31 December 2019. The increase was in the same trend as our cost of supplies consumed as a result of business growth. Our trade payables further increased to approximately RMB10.3 million, which was mainly due to the adverse impact of the outbreak of COVID-19 on our business.

The table below sets out our average trade payable turnover days for the relevant years and period indicated:

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June 2020
Average trade payable turnover days ( <i>Note</i> )	<u>39.3</u>	<u>34.1</u>	<u>30.3</u>	<u>49.7</u>

*Note:* Average trade payable turnover days is calculated as the average of the beginning and ending trade payable balances for the year/period, divided by the cost of sales for that year/period, multiplied by 365/182 days.

We either prepaid to our suppliers, mainly suppliers of hyaluronic acid and botulinum toxin type A, or our suppliers grant us a credit period of 30–60 days. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our average trade payables turnover days were 39.3, 34.1, 30.3 days and 49.7 days, respectively, and were within the range of our credit period being granted.

As at 31 October 2020, approximately RMB4.4 million, or 43.1% of our trade payables as at 30 June 2020 had been subsequently settled.

### Other Payables and Accruals

The following table sets forth our payables and accruals as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	19,661	18,957	4,789	3,437
Payroll payable	4,012	7,075	9,079	8,741
Advances received	4,954	4,291	5,263	5,160
Accruals	5,620	2,398	60	169
Tax liabilities (other than income tax)	<u>248</u>	<u>274</u>	<u>677</u>	<u>257</u>
	<u>34,495</u>	<u>32,995</u>	<u>19,868</u>	<u>17,764</u>

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### *Other Payables*

Our other payables as at 31 December 2017 and 2018 were primarily other payables to four Independent Third Parties of approximately RMB13.6 million as a result of an unsuccessful negotiation of pre-IPO investment of our Company back in 2016. Our Directors confirmed that such other payables were interest-free and repayable on demand. The non-interest bearing nature is a recognition of the fact that the past remittance of such amount to our Group is a deposit given as an expression of interest to invest in our Group by these Independent Third Parties, who were either ultimately controlled by another Independent Third Party or being the representative of such Independent Third Party. After negotiation with Mr. Fu in early 2016, the Independent Third Party decided to invest into the Group and subsequently instructed the four Independent Third Parties to make the relevant investments on his behalf. Between June and July 2016, these Independent Third Parties provided an aggregate of RMB21.6 million under the direction of the Independent Third Party, being the amount equivalent to the consideration of the potential pre-IPO investment to our Company. Subsequently, after the payment above, the parties decided not to proceed with the completion of such potential pre-IPO investments as our Company was of the view that it was not able to reach consensus with them on various commercial matters, including the listing timetable and venue, valuation of our Company and future business strategies. Upon termination of the negotiations, such amount received by our Company became repayable, and the parties mutually agreed to repay such amount by installments because such amount had been utilized by our Group for renovation of aesthetic medical institutions, purchases of equipment and other corporate purposes. As a result, our Group returned the investment amount to the four Independent Third Parties between December 2017 and June 2019, and such repayment was fully settled by our Group during the year ended 31 December 2019. In addition, the Independent Third Party also transferred RMB10.0 million to Mr. Fu in February 2016, which reflected the possible and potential sale-down of the equity interest held by Mr. Fu in our Group. Upon termination of negotiations, such amount received by Mr. Fu became repayable and Mr. Fu returned such amount to the Independent Third Party in full in September 2018. Save for the above transfer and the said potential pre-IPO investments, there was/is no other past or present relationship, including family, business, employment, trust, financing, dealings, connections or transactions, between the Independent Third Party and the shareholders, directors or management of our Group and their associates.

On 25 May 2018, the Group entered into a loan agreement pursuant to which the Company obtained borrowings in the amount of RMB33.3 million with an interest rate of 10% per annum from an Independent Third Party. On 30 December 2018, the Group entered into an agreement to transfer all the loans of RMB33.3 million and interests of RMB1.7 million to Mr. Fu so the loans and interests were re-categorized from other payable to “amount due to the Controlling Shareholder”.

As at 31 December 2019, other payables amounted to approximately RMB4.8 million, comprising mainly (i) other payables to Mr. Wang Yuming, a minority Shareholder and supervisor of Wuhu Raily, of approximately RMB1.6 million mainly for working capital purposes in Wuhu Raily. Such sum would be settled prior to the Listing; (ii) advertising and promotional fees payables of approximately RMB0.5 million; (iii) renovation fees payables

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of approximately RMB0.9 million for Wuhu Raily; and (iv) rental fees payables of RMB0.7 million for Raily Tiange. As at 30 June 2020, other payables decreased to approximately RMB3.4 million after settlement of accrued expenses.

### *Advances received*

Our advances received primarily represented advance payments received from our clients for our aesthetic medical services before confirming all the details of the treatment. Such advance was made generally to lock up the discounted prices during promotional activities. All of our clients will first have face-to-face consultation with our client service personnel in which, depending on the needs of our clients, we will design and recommend the most suitable procedure to our clients to achieve desired aesthetic results, which maybe one-off service session, multiple service sessions of a single procedure or multiple types of procedures may be recommended to our clients. There were no expiry dates to our advances received and such advances would either be (i) recognized as revenue upon rendering of the agreed aesthetic medical services; (ii) transferred to contract liabilities after confirming all the details and the types of treatment; and (iii) refunded upon clients' requests.

Our advances received from our customers only accounted for 6.0%, 3.6%, 2.9% and 3.0% of our total assets as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively.

Set forth below a summary of the movements in our advances received:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Carrying amount				
at beginning of year	4,784	4,954	4,291	5,263
Additions	38,374	33,574	41,053	9,232
Recognised as revenue	(35,699)	(31,892)	(38,344)	(8,774)
Refunded	<u>(2,505)</u>	<u>(2,345)</u>	<u>(1,737)</u>	<u>(561)</u>
Carrying amount				
at end of year	<u>4,954</u>	<u>4,291</u>	<u>5,263</u>	<u>5,160</u>



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The following table sets forth an aging analysis of our advances received as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	1,050	377	710	1,258
91 to 180 days	532	985	683	130
181 to 365 days	709	382	730	601
Over 365 days	<u>2,663</u>	<u>2,547</u>	<u>3,140</u>	<u>3,171</u>
	<u>4,954</u>	<u>4,291</u>	<u>5,263</u>	<u>5,160</u>

As at 30 June 2020, approximately 38.5% of our advances received were aged within a year.

The table below sets out our average advances received turnover days for the relevant years and period indicated:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Average advances received turnover days ( <i>Note</i> )	<u>15.7</u>	<u>11.5</u>	<u>9.5</u>	<u>16.5</u>

*Note:* Average advances received turnover days are calculated as the average of the beginning and ending advances received balances for the year/period, divided by the revenue from aesthetic medical services for that year/period, multiplied by 365/182 days.

For the three years ended 31 December 2019 and the six months ended 30 June 2020, our average advances received turnover days were 15.7, 11.5, 9.5 and 16.5 days, respectively, and were all within one month.

As at 31 October 2020, approximately RMB1.7 million, or 32.5% of our advances received as at 30 June 2020 had been subsequently recognised as revenue refunded.

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### *Accruals*

Accruals of approximately RMB5.6 million as at 31 December 2017 and approximately RMB2.4 million as at 31 December 2018 represented primarily accrued fees to the employment agents, who are Independent Third Parties, in relation to the labour dispatch arrangements. For details, please refer to the section headed “Business — Our Employees — Labour dispatch arrangements”. Accruals as at 31 December 2019 significantly reduced to less than RMB0.1 million after the cessation of the aforementioned labour dispatch arrangement since August 2019. Accruals as at 30 June 2020 remained stable.

### **Refund liabilities**

As a measure to enhance client loyalty and establish long-term relationships with our clients, we have implemented a robust client feedback management system to ascertain clients’ satisfaction level towards our services and actively manage clients’ feedback.

During the process of our active solicitation of feedback from our clients, our clients service personnel may encounter various clients’ concerns and requests, including, clients who due to various personal reasons wish to refund all or part of the service fees before or after the service rendered and clients who are not fully satisfied on various aspects of our services, such as our staff attitude, waiting time prior to receipt of service at our aesthetic medical institutions and post-treatment discomfort. Our client service personnel would offer detailed explanation to address clients’ concern and in some cases, in order to appease our clients, maintain our service quality and to encourage repeated visits, our client service personnel may offer certain complimentary skin care products, complimentary procedures and/or to refund all or part of the service fees on case-by-case basis. During the Track Record Period, our client service personnel offered RMB2.0 million, RMB4.3 million, RMB8.1 million and RMB3.1 million worth complimentary procedures; and refunded RMB1.5 million, RMB4.5 million, RMB3.0 million and RMB1.8 million.

In addition, with the unique nature of the aesthetic medical services industry, we inevitably receive client complaints in relation to our performance of aesthetic medical procedures from time to time that could not be resolved by our clients service personnel. During the Track Record Period, our medical affairs department handled a total of 138 complaints, among which 109 of the complaints resulted in monetary refund and/or payment of settlement sum. The total amounts of refunds were approximately RMB0.4 million, RMB0.4 million, RMB0.7 million and RMB0.2 million during the Track Record Period, representing approximately 0.4%, 0.2%, 0.4% and 0.3% of our total revenue for the same periods, respectively.

Our refund liabilities amounted to approximately RMB1.6 million as at 31 December 2017, RMB5.0 million as at 31 December 2018, RMB6.1 million as at 31 December 2019 and RMB6.2 million as at 30 June 2020, which were merely representing 2.4%, 4.9%, 6.8% and 6.9% of our total liabilities, respectively. By reference to the dissatisfied clients and complaints received historically, a refund liability represented the estimated portion of service fees received which may be refunded in the future. Therefore, such estimated portion

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of service fees received would not be recognized as revenue when the services were rendered. Our refund arises out of conduct and intent of our Group rather than a contract entered into with our clients.

Our Group estimates variable considerations to be included in the transaction price for the refund to customers in respect of unsatisfactory services rendered. During the Track Record Period, the refund liabilities were accrued based on our Group's past experience with various groups of customers. Refund liability was recognised when the service had been rendered, and the actual refund usually took place within one to two years afterwards.

The table below sets forth the movement of our refund liabilities during our Track Record Period:

	<b>Refund liabilities</b>
At 1 January 2017	1,651
Additions	3,786
Amounts utilised during the year	<u>(3,868)<sup>(1)</sup></u>
At 31 December 2017 and 1 January 2018	1,569
Additions	12,626
Amounts utilised during the year	<u>(9,168)<sup>(2)</sup></u>
At 31 December 2018 and 1 January 2019	5,027
Additions	12,843
Amounts utilised during the year	<u>(11,778)<sup>(3)</sup></u>
At 31 December 2019 and 1 January 2020	6,092
Additions	5,233
Amounts utilised during the period	<u>(5,134)<sup>(4)</sup></u>
At 30 June 2020	<u><u>6,191</u></u>

*Notes:*

- (1) The sum represented the aggregate of (i) the approximate costs/worth for complimentary procedures/gift offered to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant year in the approximate sum of RMB1.9 million; and (ii) the approximate amount of refund paid to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant year in the approximate sum of RMB1.5 million and for complaints handled by our medical affairs department during the relevant year in the approximate sum of RMB423,000.

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- (2) The sum represented the aggregate of (i) the approximate costs/worth for complimentary procedures/gift offered to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant year in the approximate sum of RMB4.3 million; and (ii) the approximate amount of refund paid to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant year in the approximate sum of RMB4.5 million and for complaints handled by our medical affairs department during the relevant year in the approximate sum of RMB355,000.
- (3) The sum represented the aggregate of (i) the approximate costs/worth for complimentary procedures/gift offered to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant year in the approximate sum of RMB8.1 million; and (ii) the approximate amount of refund paid to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant year in the approximate sum of RMB3.0 million and for complaints handled by our medical affairs department during the relevant year in the approximate sum of RMB732,000.
- (4) The sum represented the aggregate of (i) the approximate costs/worth for complimentary procedures/gift offered to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant period in the approximate sum of RMB3.1 million; and (ii) the approximate amount of refund paid to clients for cases solicited through our client feedback management system as part of our after sales services during the relevant period in the approximate sum of RMB1.8 million and for complaints handled by our medical affairs department during the relevant period in the approximate sum of RMB192,000.

At the end of each financial period, we would assess the sufficiency and update the estimation of its refund liabilities, which would take into account of several factors including (i) the historical rate of dissatisfied clients and complaints, which ranged from approximately 2.9% to 6.4% of the total revenue during the Track Record Period; (ii) actual refunds made; (iii) any changes to the Group's business strategies and future economic conditions; and (iv) status of outstanding and unresolved complaints. The Group estimated the refund liabilities by first multiplying the revenue during the year by the rate of dissatisfied clients and complaints and then deducting from the sum the refunds already made during the year. The estimation of such refund liabilities became a pool of provision available for us to utilise in the future in case certain service fees are to be refunded to clients. At the end of each financial period end, the amount of refund liabilities provision would be remeasured and compared against the unutilized refund liabilities brought forward. Any excess would be recognized as addition to refund liabilities. The utilisation of refund liability would be recognised by a reduction in revenue in our consolidated statement of profit or loss.

Our refund liabilities increased significantly from approximately RMB1.6 million as at 31 December 2017 to approximately RMB5.0 million as at 31 December 2018 because of (i) our business growth with approximately 29.5% increase in revenue derived from aesthetic medical services; and (ii) the increased rate of dissatisfied clients and complaints in 2018 from approximately 3.3% in 2017 to approximately 5.7% in 2018 because of our effective client feedback management system and our increased focus placed on e-commerce online platforms upon the adoption of the new business retail philosophy in late 2017 where we could more closely monitor the feedbacks on our online shops and other media platforms. In order to maintain the market recognition of our brand and to alleviate clients' possible dissatisfaction or discomfort as much as possible, we proactively reached out to our clients

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to provide them with timely explanation and responses. Therefore, we prudently increased our additions of refund liabilities based on the increased rate of dissatisfied clients and complaints in 2018. After the implementation of our robust client management system and the new business retail philosophy, the rate of dissatisfied clients and complaints remained stable in 2019 at approximately 5.8% and increased slightly to 6.4% for the six months ended 30 June 2020. As such, there was immaterial variance between the addition and amounts utilized in 2019 and the first half of 2020.

Refund liabilities further increased to approximately RMB6.1 million as at 31 December 2019 as a result of our business growth with 25.5% increase in revenue derived from aesthetic medical services. Refund liabilities as at 30 June 2020 remained stable at approximately RMB6.2 million.

### Lease liabilities

Our Group adopted IFRS 16 throughout the Track Record Period as stated in Note 2.2 of the Accountants' Report set out in Appendix I to this prospectus. As such, we recognized right-of-use assets and the corresponding lease liabilities in respect of all leases, except for short-term leases in our consolidated statements of financial position.

We enter into property leases for our aesthetic medical institutions generally covering fixed terms of two to ten years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. Our lease liabilities were mainly dominated in RMB. The lease agreements do not impose any covenants but leased assets may not be used as security for borrowing purposes.

### Contract liabilities

Our contract liabilities amounted to approximately RMB1.0 million as at 31 December 2017, approximately RMB2.7 million as at 31 December 2018, approximately RMB5.2 million as at 31 December 2019 and RMB5.7 million as at 30 June 2020, which were recognized from our (i) fixed-term service plans; (ii) fixed-sessions service plans; and (iii) management consulting contracts.

The following table sets forth the breakdown of our contract liabilities by our type of services offered as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Fixed-term service plans	159	391	1,641	1,732
Fixed-session service plans	526	1,586	3,557	3,874
Management consulting contracts	330	684	23	69
	<u>1,015</u>	<u>2,661</u>	<u>5,221</u>	<u>5,675</u>

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### ***Fixed-term service plans***

During the Track Record Period, coupling our marketing and promotional efforts, we strategically offered fixed-term service plans to our clients during the Track Record Period to attract new clients and increase the frequency of visits of our clients and in turn increase the stickiness of our clients and our success in cross-selling our other aesthetic medical services. Therefore, fixed-term service plans are usually not of high value. During the Track Record Period, almost all of our fixed-period service plans were priced below RMB1,000. Our fixed-term service plans are generally valid for one-year or two-year period and cannot be extended.

Contract liabilities from fixed-term service plans were recognised as revenue in our consolidated statements of profit or loss and other comprehensive income over the validity period of our fixed-term service plans on a straight-line basis.

During the Track Record Period, no forfeited income was recognized as part of our revenue for our fixed-term service plans because our aesthetic medical services were made available to our client throughout the service period.

### ***Fixed-session service plans***

In order to attract new clients, boost repeated visits and increase the loyalty of our clients, we offer fixed-session service plans where our clients may enjoy repeated sessions of a procedure at a discounted price. Our fixed-sessions service plans primarily cover aesthetic dermatology procedures where aesthetic results would be more easily maintained through repeated sessions of the procedures, such as microneedle therapy system and photo rejuvenation procedures.

As there were no expiry dates to our fixed-session service plans, contract liabilities arising from our fixed-session service plans will only be recognised as revenue in our consolidated statements of profit or loss and other comprehensive income when the services were rendered. Therefore, no forfeited income was recognised as part of our revenue during the Track Record Period after a certain period upon purchases of such services.

According to IFRS 15 “*Revenue from Contracts with Customers*”, it is required that when an entity expects to be entitled to a breakage amount, the expected breakage would be recognised as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, it would not recognise any breakage amounts as revenue until the likelihood of the customer exercising its right becomes remote.

The Directors of the Group did not expect to be entitled to a breakage amount and did not recognise any breakage amounts as revenue, as they are of the view that without expiry dates imposed on our service plans, the customers could come back anytime and, therefore, the likelihood of the customer exercising its right was not remote. As a result, the Group did not recognize any forfeited income during the Track Record Period based on breakage and the contract liabilities of fixed-session services plan will remain as the Group’s liabilities in the statements of financial position.



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### *Management consulting contracts*

We began to provide management consulting services to third party aesthetic medical institutions and aesthetic medical physicians since December 2017. The contract periods of management consulting contracts were generally one to two years. On a case-by-case basis, we generally charge our client a fixed service fees and/or, in some cases performance bonus for our management consulting services. Contract liabilities of the fixed service fees would be recognised as revenue in our consolidated statements of profit or loss and other comprehensive income over the contract period on a straight-line basis. The portion of performance bonus in contract liabilities would only be recognised as revenue upon reaching the performance at the end of the contract term.

Set forth below a summary of the movements in our contract liabilities:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of year	—	1,015	2,661	5,221
Additions	14,552	20,104	18,667	13,329
Recognised as revenue	(13,140)	(18,101)	(15,702)	(12,460)
Refunded	<u>(397)</u>	<u>(357)</u>	<u>(405)</u>	<u>(415)</u>
Carrying amount at end of year	<u>1,015</u>	<u>2,661</u>	<u>5,221</u>	<u>5,675</u>

The following table sets forth an aging analysis of our contract liabilities as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	687	1,562	3,550	4,638
91 to 180 days	237	586	937	252
181 to 365 days	91	513	731	548
Over 365 days	<u>—</u>	<u>—</u>	<u>3</u>	<u>237</u>
	<u>1,015</u>	<u>2,661</u>	<u>5,221</u>	<u>5,675</u>

As at 30 June 2020, most of our contract liabilities were aged within a year and among which approximately 81.7% were aged within 90 days. It is consistent with our Group's policy as fixed-term service plans generally of one year were introduced to our clients.

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The table below sets out our average contract liabilities turnover days for the relevant years and period indicated:

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June 2020
Average contract liabilities turnover days ( <i>Note</i> )	<u>2.7</u>	<u>4.2</u>	<u>7.5</u>	<u>16.9</u>

*Note:* Average contract liabilities turnover days are calculated as the average of the beginning and ending contract liabilities balances for the year/period, divided by the revenue for that year/period, multiplied by 365/182 days.

For the three years ended 31 December 2019 and six months ended 30 June 2020, our average contract liabilities turnover days were 2.7, 4.2, 7.5 and 16.9 days, respectively, and were all within one month.

As at 31 October 2020, approximately RMB4.1 million, or 71.9% of our contract liabilities as at 30 June 2020 had been subsequently recognised as revenue/refunded.

### Bank borrowings

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Current</b>				
Bank Loans — secured	—	—	4,948	13,005
Bank Loans — unsecured	<u>—</u>	<u>—</u>	<u>2,000</u>	<u>2,000</u>
	<u>—</u>	<u>—</u>	<u>6,948</u>	<u>15,005</u>

As at 31 December 2017, 2018, 2019 and 30 June 2020, our bank borrowings amounted to nil, nil, approximately RMB6.9 million and RMB15.0 million, respectively. The balance as at 31 December 2019 and 30 June 2020 represented to three loans obtained which sets out below:

On 10 October 2019, Hangzhou Raily entered into a loan agreement with a PRC bank, pursuant to which such PRC bank agreed to provide a revolving facility in an aggregate amount of RMB10.0 million for a period from 10 October 2019 to 30 September 2020 at an interest rate of 5.0025% per annum. The loan was secured by our Group's debt investments at amortized cost of approximately RMB11.1 million. As at 31 December 2019 and 30 June 2020, our Group utilised approximately RMB4.9 million and RMB8.0 million of the revolving facility, respectively.

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On 1 November 2019, Hangzhou Raily entered into a loan agreement with another PRC bank, pursuant to which the PRC bank agreed to lend to Hangzhou Raily a term loan in the principal amount of RMB2.0 million repayable at an interest rate of 4.2% per annum. This loan was fully drawn down as at 31 December 2019 and is unsecured and unguaranteed and will be repayable on the date falling on the 11 months from the drawdown date.

On 19 June 2020, Hangzhou Raily entered into a loan agreement with a PRC bank, pursuant to which the PRC bank agreed to lend to Hangzhou Raily a term loan in the principal amount of RMB10.0 million repayable at an interest rate of PRC Loan Prime Rate minus 40 basis point per annum. As at 30 June 2020, approximately RMB5.0 million of the loan has been drawn down. The loan is secured by pledged deposit of approximately RMB10.5 million and will be payable on June 2021.

All of the above loans were or will be used for our working capital and other corporate purpose.

### NET CURRENT LIABILITIES/ASSETS

The table below sets forth our current assets and current liabilities as at the dates indicated:

	2017	As at 31 December 2018	2019	As at 30 June 2020	As at 31 October 2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
<b>Current assets</b>					
Supplies	4,177	6,087	7,894	6,536	8,687
Trade receivables	4,381	5,097	8,321	5,418	9,911
Prepayments, other receivables and other assets	8,257	10,735	15,762	19,356	24,397
Due from the controlling shareholder	5,856	—	—	—	—
Due from related companies	300	325	865	—	—
Debt investments at amortised cost	—	—	11,055	11,110	—
Other current financial assets	—	—	—	5,375	5,424
Pledged deposits	—	—	—	10,500	10,500
Cash and cash equivalents	9,418	20,355	49,410	27,499	41,319
	<u>32,389</u>	<u>42,599</u>	<u>93,307</u>	<u>85,794</u>	<u>100,238</u>
<b>Current liabilities</b>					
Interest-bearing bank and other borrowings	—	—	6,948	15,005	13,000
Due to the controlling shareholder	—	8,854	1,672	5	—
Due to related companies	—	5,680	245	—	—
Trade payables	5,953	6,463	8,475	10,323	10,266
Other payables and accruals	34,495	32,995	19,868	17,764	17,434
Refund liabilities	1,569	5,027	6,092	6,191	7,586
Lease liabilities	3,749	6,240	6,619	6,747	6,361
Contract liabilities	1,015	2,661	5,221	5,675	8,874
Tax payable	8,077	13,090	14,928	11,435	10,214
	<u>54,858</u>	<u>81,010</u>	<u>70,068</u>	<u>73,145</u>	<u>73,735</u>
<b>Net current (liabilities)/assets</b>	<u>(22,469)</u>	<u>(38,411)</u>	<u>23,239</u>	<u>12,649</u>	<u>26,503</u>

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Our Group recorded net current liabilities of approximately RMB22.5 million as at 31 December 2017, RMB38.4 million as at 31 December 2018 and recorded net current assets of approximately RMB23.2 million as at 31 December 2019 and approximately RMB12.6 million as at 30 June 2020.

Our Group recorded net current liabilities of approximately RMB22.5 million as at 31 December 2017, which was mainly attributable to the lower current asset level of our Group amounted to approximately RMB32.4 million, net off by the current liabilities of approximately RMB54.9 million. The major item of current liabilities as at 31 December 2017 represents the other payables and accruals of approximately RMB34.5 million, which primarily included (i) the other payables to four Independent Third Parties of approximately RMB13.6 million; (ii) payroll payable of approximately RMB4.0 million; and (iii) advances received from customers of approximately RMB5.0 million.

Our net current liabilities increased from approximately RMB22.5 million as at 31 December 2017 to approximately RMB38.4 million as at 31 December 2018, primarily as a result of (i) the net increase in amount due to the controlling shareholder and related companies of approximately RMB8.7 million; (ii) the increase in our refund liabilities of RMB3.5 million as a result of our business expansion; (iii) the increase in tax payable of approximately RMB5.0 million as a result of our increase in profit before tax; (iv) the increase in our lease liabilities of RMB2.5 million for renewal of lease agreement and expansion of Ruian Raily; and (v) the approximately RMB1.6 million increase in contract liabilities; net-off by (vi) the increase in cash and cash equivalents of approximately RMB10.9 million.

Our Group then recorded net current assets of approximately RMB23.2 million as at 31 December 2019, primarily as a result of (i) increase in debt investments at amortised cost of RMB11.1 million, which represented the carrying amount of financial investment products purchased; (ii) increase in prepayments, other receivables and other assets of approximately RMB5.1 million as a result of increase in prepayment for supplies of approximately RMB0.6 million, increase in prepaid listing expense of approximately RMB2.1 million, and approximately RMB1.8 million increase in deposits which was primarily due to the deposits of RMB2.0 million paid by Raily Equipment to Jiumei Xinhe for the non-exclusive sale and distribution of Chuzhen Facial Implant in Zhejiang Province; and (iii) increase in cash and cash equivalent of approximately RMB29.0 million; (iv) the decrease in amount due to the controlling shareholder and related parties of approximately RMB12.6 million; and (v) decrease in other payables and accruals of approximately RMB13.1 million as a result of settlement of approximately RMB13.6 million to four Independent Third Parties.

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Our net current assets decreased from approximately RMB23.2 million as at 31 December 2019 to approximately RMB12.6 million as at 30 June 2020, primarily as a result of (i) decrease in cash and cash equivalents of approximately RMB21.9 million; (ii) decrease in accounts receivable of RMB2.9 million due to subsequent settlement from clients during the first half of 2020; (iii) increase in interest-bearing bank and other borrowings of approximately RMB8.1 million; (iv) increase in trade payable of approximately RMB1.8 million due to the purchase of botulinum toxin type A during June 2020 to meet expected demand driven by our promotional activities; net-off by (v) increase in pledged deposits of approximately RMB10.5 million to secure a banking facility granted by a commercial bank; (vi) the increase in other current financial assets of approximately RMB5.4 million, which represented new financial investment products purchased by Raily Tiange from a commercial bank in the PRC; (vii) decrease in tax payable of approximately RMB3.5 million due to subsequent payment; and (viii) decrease in other payable and accruals of approximately RMB2.1 million due to the decrease in tax liabilities (other than income tax) of approximately RMB0.4 million and the decrease of accrued promotion and marketing expenses due to subsequent settlement.

As at 31 October 2020, being the latest practicable date for indebtedness, our net current assets increased to approximately RMB26.5 million, primarily as a result of (i) the increase in supplies and trade receivables of approximately RMB2.2 million and RMB4.5 million respectively, driven by the higher revenue generated in October 2020 compared with June 2020; (ii) the decrease in interest-bearing bank and other borrowings of approximately RMB2.0 million due to the repayment of our bank borrowings of approximately RMB10.0 million and the drawdown of RMB8.0 million from our revolving facility; and (iii) the increase in cash and cash equivalents of approximately RMB13.8 million; net-off by (iv) the decrease in our debt investments at amortised cost of RMB11.1 million due to maturity.

### LIQUIDITY AND CAPITAL RESOURCES

Our liquidity requirements primarily related to capital expenditures, working capital needs and debt services. During the Track Record Period, our working capital and other capital requirements were principally satisfied by cash generated from our operations and borrowings.

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The following table sets forth a summary of our cash flows during our Track Record Period:

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June 2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before movements in working capital	32,642	37,712	29,811	(5,804)
Movements in working capital	<u>1,979</u>	<u>(1,685)</u>	<u>(2,752)</u>	<u>732</u>
Cash generated from/(used in) operations	34,621	36,027	27,059	(5,072)
Income tax paid	<u>(73)</u>	<u>(3,970)</u>	<u>(10,078)</u>	<u>(4,166)</u>
Net cash flows from/(used in) operating activities	34,548	32,057	16,981	(9,238)
Net cash flows used in investing activities	(21,468)	(35,999)	(37,132)	(18,240)
Net cash flows from/(used in) financing activities	<u>(12,227)</u>	<u>14,879</u>	<u>49,202</u>	<u>5,562</u>
Net increase/(decrease) in cash and cash equivalents	853	10,937	29,051	(21,916)
Net foreign exchange difference	—	—	4	5
Cash and cash equivalents at beginning of the year/period	<u>8,565</u>	<u>9,418</u>	<u>20,355</u>	<u>49,410</u>
Cash and cash equivalents at end of the year/period	<u><u>9,418</u></u>	<u><u>20,355</u></u>	<u><u>49,410</u></u>	<u><u>27,499</u></u>

### Net cash flows from/(used in) operating activities

Our net cash flows from operating activities primarily represented cash receipts in respect of our services provided and payments for purchase of supplies, and expenses such as selling and distribution expenses and administrative expenses.

For the year ended 31 December 2017, our Group had net cash flows from operating activities of approximately RMB34.5 million as a result of the profit before tax of approximately RMB23.3 million, adjusted for (i) the depreciation of property, plant and equipment of approximately RMB4.3 million; (ii) the depreciation of right-of-use assets of approximately RMB3.2 million; (iii) increase in trade payables of approximately RMB3.6



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million; (iv) increase in other payables and accruals of approximately RMB3.0 million; and partially offset by (v) the increase in prepayments, other receivables and other assets of approximately RMB4.1 million.

For the year ended 31 December 2018, our Group had net cash flows from operating activities of approximately RMB32.1 million as a result of the profit before tax of approximately RMB26.4 million, adjusted for (i) the depreciation of property, plant and equipment of approximately RMB4.9 million; (ii) the depreciation of right-of-use assets of approximately RMB3.6 million; (iii) increase in refund liability of approximately RMB3.5 million; and partially offset by (iv) the increase in supplies of approximately RMB1.9 million; (v) increase in prepayments, other receivables and other assets of approximately RMB2.2 million; and (vi) decrease in other payables and accruals of approximately RMB2.1 million.

For the year ended 31 December 2019, our Group had net cash flows from operating activities of approximately RMB17.0 million as a result of the profit before tax of approximately RMB16.4 million, adjusted for (i) the depreciation of property, plant and equipment of approximately RMB5.8 million; (ii) the depreciation of right-of-use assets of approximately RMB5.9 million; (iii) increase in refund liability of approximately RMB1.1 million; and partially offset by (iv) the increase in supplies of approximately RMB1.8 million; (v) increase in prepayments, other receivables and other assets of approximately RMB5.1 million; and (vi) increase in trade receivables of approximately RMB3.2 million.

For the six months ended 30 June 2020, our Group had net cash used in operating activities of approximately RMB9.2 million, as a result of the loss before tax of approximately RMB12.4 million primarily due to temporary suspension of operation of our aesthetic medical institution, adjusted for (i) the depreciation of property, plant and equipment of approximately RMB3.6 million; (ii) the depreciation of right-of-use assets of approximately RMB2.9 million; (iii) increase in prepayments, other receivables and other assets of approximately RMB3.8 million; (iv) decrease in other payables and accruals of approximately RMB2.1 million; and partially offset by (v) decrease in trade receivables of approximately RMB2.9 million; (iv) increase in trade payables of approximately RMB1.8 million; and (v) decrease in supplies of approximately RMB1.4 million.

Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in earlier paragraphs in this section.

Due to the outbreak of the COVID-19, we recorded negative net operating cash flows during the six months ended 30 June 2020. In order to mitigate the impact of the outbreak of COVID-19 on our working capital, we adopted the following measures: (i) enhancing our online marketing to re-attract our clients by maintaining effective communication with our clients through our client service team and organizing promotional campaigns to resume our clients' demands for our services; (ii) adopting additional precautionary measures in order to gain clients' confidence in our hygienic environment in our aesthetic medical institutions, please refer to the section headed "Business — Impact of Outbreak of COVID-19 on our Operation in the PRC — Precautionary measures and contingency plan in response to COVID-19" in this prospectus for more details; (iii) closely monitoring our

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collection of receivables and payment of payables to maintain better cashflow position; and (iv) actively identifying additional funding sources for working capital. As at 31 October 2020, being the latest practicable date for the indebtedness statement, our Group had unutilised banking facilities for working capital purposes of approximately RMB2.0 million. For details, please refer to paragraph headed “Indebtedness” in this section for more details.

The income taxes paid during the Track Record Period were generally lower than the current portion of income tax for the corresponding year primarily because of (i) the timing difference between accounting treatment for income tax on accrual basis and the actual payments of income tax in the PRC, which generally required quarterly payment and the final amount of income tax would be adjusted at the annual filing for final settlement of income tax in the following year; (ii) the utilization of tax losses brought forward from previous years mainly for Hangzhou Raily for the year ended 31 December 2017; (iii) the timing differences of certain expenses items which were adjusted upon settlement subsequent to financial year end; and (iv) the seasonal fluctuations of the demand for the Group’s services where the Group’s revenue was the highest in the fourth quarter, thereby, a substantial portion of income tax was paid in the following year subsequent to the forth quarter.

### **Net cash flows used in investing activities**

For the year ended 31 December 2017, our net cash used in investing activities amounted to approximately RMB21.5 million, which was mainly derived from (i) increase in amounts due from the controlling shareholder of approximately RMB15.0 million; (ii) acquisition of subsidiaries of approximately RMB3.8 million which represented primarily the cash consideration paid in respect of the acquisition of Raily Tiange of approximately RMB6.1 million, net off by the cash and cash equivalents acquired from the acquisition of Guangzhou Yingjieshi of approximately RMB2.3 million; and (iii) purchases of items of property, plant and equipment of approximately RMB2.6 million.

For the year ended 31 December 2018, our net cash used in investing activities amounted to approximately RMB36.0 million, which was mainly derived from (i) increase in amounts due from the controlling shareholder of approximately RMB21.1 million; (ii) purchases of items of property, plant and equipment of approximately RMB12.7 million, mainly due to the purchase of equipment for picosecond laser treatment; and (iii) purchases of items of intangible assets, mainly representing software development fees, of approximately RMB2.4 million.

For the year ended 31 December 2019, our net cash used in investing activities amounted to approximately RMB37.1 million, which was mainly derived from (i) purchases of financial investments of approximately RMB49.5 million; (ii) purchase of equity investments designated at fair value through other comprehensive income of approximately RMB6.0 million; and (iii) purchases of items of property, plant and equipment of approximately RMB10.8 million; and (iv) approximately RMB6.3 million increase in amount due from the controlling shareholders partially net off by (v) approximately RMB39.0 million proceeds from disposal of investments measured at fair value.

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## FINANCIAL INFORMATION

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For the six months ended 30 June 2020, our cash used in investing activities amounted to approximately RMB18.2 million, which was mainly derived from (i) purchase of financial investments of approximately RMB5.3 million; (ii) increase in pledged deposits of approximately RMB10.5 million for obtaining interest-bearing bank and other borrowings; and (iii) purchase of items of property, plant and equipment of approximately RMB1.6 million.

### **Net cash flows from/(used in) financing activities**

Our net cash flows from or used in financing activities primarily represented deposits from and repayment of deposits to potential investors, and dividend paid.

For the year ended 31 December 2017, our net cash used in financing activities amounted to approximately RMB12.2 million, which was mainly derived from (i) the repayment of loans from an Independent Third Party of approximately RMB8.0 million; and (ii) payment of principal portion of lease liabilities of approximately RMB4.2 million.

For the year ended 31 December 2018, our net cash from financing activities amounted to approximately RMB14.9 million, which was mainly derived from (i) loan from an Independent Third Party of approximately RMB33.3 million, partly offset by (ii) dividend paid of approximately RMB12.6 million; and (iii) payment of principal portion of lease liabilities of approximately RMB6.9 million.

For the year ended 31 December 2019, our net cash from financing activities amounted to approximately RMB49.2 million, which was mainly derived from (i) proceeds from issue of shares to Pre-IPO Investors of approximately RMB80.1 million; partly offset by (ii) repayment of loan from four Independent Third Parties of approximately RMB13.6 million; (iii) dividends paid of approximately RMB18.8 million; and (iv) payment of principal portion of lease liabilities of approximately RMB6.6 million.

For the six months ended 30 June 2020, our net cash from financing activities amounted to approximately RMB5.6 million, which was mainly derived from (i) approximately RMB8.1 million bank borrowings and partially net-off by (ii) the payment of lease liabilities of approximately RMB2.1 million.

### **WORKING CAPITAL SUFFICIENCY**

Our Directors confirm that, having considered the above and taking into consideration the financial resources presently available to us, which are primarily our internal resources, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in section headed "Future Plans and Use of Proceeds" in this prospectus.

## FINANCIAL INFORMATION

### INDEBTEDNESS

The table below sets forth our indebtedness balances as of the dates indicated:

	As at 31 December			As at	As at
	2017	2018	2019	30 June	31 October
	RMB'000	RMB'000	RMB'000	2020	2020
				RMB'000	RMB'000
					(unaudited)
Lease liabilities					
(current and non-current)	15,261	27,167	26,384	23,919	20,899
Due to the controlling shareholder	—	8,854	1,672	5	—
Due to related companies	—	5,680	245	—	—
Other payables and accruals	15,146	15,146	1,615	1,615	1,615
Bank borrowings	—	—	6,948	15,005	13,000
	<u>30,407</u>	<u>56,847</u>	<u>36,864</u>	<u>40,544</u>	<u>35,514</u>

As a lessee, the Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

As at 31 October 2020, being the latest practicable date for the indebtedness statement, we had outstanding indebtedness of approximately RMB35.5 million. Our indebtedness balance as at 31 October 2020 included bank borrowings amounted to RMB13.0 million in total, among which RMB10.0 million of the loan has an interest rate of PRC Loan Prime Rate minus 40 basis point per annum, was secured by pledged deposit of approximately RMB10.5 million and will be payable on June 2021. While the remaining RMB3.0 million has an interest rate of 4.15% per annum, was unsecured and will be payable on August 2021. We had unutilized banking facilities of approximately RMB2.0 million. Except the aforementioned, we do not have any other debt security, term loan, bank overdraft, liability under acceptances, acceptance credit or hire purchase commitment, mortgage nor charge of the Group. Our Directors confirm that there were no breach of any covenants relating to our banking facilities during the Track Record Period and up to the Latest Practicable Date.

### CONTINGENT LIABILITIES

As at 31 December 2017, 2018, 2019 and 30 June 2020, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors have confirmed that there was no material adverse change in our Group's contingent liabilities since 30 June 2020 and up to the Latest Practicable Date.

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## FINANCIAL INFORMATION

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### CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on (i) property, plant and equipment; (ii) other non-current assets; and (iii) intangible assets. The following table sets forth our capital expenditures during the Track Record Period:

	Year ended 31 December			Six months ended
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	2,579	12,569	11,073	1,783
Other non-current assets	31	2,254	2,159	(216)
Intangible assets	<u>26</u>	<u>270</u>	<u>128</u>	<u>91</u>
	<u>2,636</u>	<u>15,093</u>	<u>13,360</u>	<u>1,658</u>

Our capital expenditures on property, plant and equipment mainly represented (i) the purchase of machinery equipment, primarily for our aesthetic dermatology services, including energy-based devices such as laser, radiofrequency and intense pulsed light equipment; and (ii) leasehold improvements on our working space used in operations. Our other non-current assets represented prepayment made for the development of client management system.

### COMMITMENTS

#### Commitments

As at 30 June 2020, our Group had capital commitments of RMB2.4 million relating to the future capital contributions payable for software development.

### OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interest and classified as owners' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in Note 36 to the Accountants' Report in Appendix I to this prospectus. Our related party transactions mainly represent amounts due to/from a director and a related party.

Our balances with the Controlling Shareholder and related parties are unsecured, interest-free and repayable on demand and the balances are non-trade in nature. Our amounts due from/to the Controlling Shareholder and related parties will be fully settled prior to the Listing. There has been no pledge or guarantee provided by/to our Controlling Shareholder or related parties during the Track Record Period and up to 31 October 2020, being the latest practicable date for indebtedness.

### KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as at the dates or for the year indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current ratio <sup>(1)</sup>	0.6	0.5	1.3	1.2
Quick ratio <sup>(2)</sup>	0.5	0.5	1.2	1.1
Gearing ratio <sup>(3)</sup>	97.4%	181.2%	35.7%	47.8%
Net debt to equity ratio <sup>(4)</sup>	37.3%	45.4%	N/A	14.0%
	Year ended 31 December			Six months ended
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Interest coverage <sup>(5)</sup>	18.1	9.0	8.0	N/A
Return on assets <sup>(6)</sup>	21.2%	15.6%	5.6%	N/A
Return on equity <sup>(7)</sup>	111.1%	122.9%	11.0%	N/A

*Notes:*

- (1) Current ratio is calculated dividing total current assets by total current liabilities as at the end of each year/period.
- (2) Quick ratio is calculated by dividing total current assets less supplies by total current liabilities as at the end of each year/period.
- (3) Gearing ratio is calculated by dividing total debt by total equity as at the end of each year/period and multiplying the result by 100%. Total debt represents the sum of current and non-current portion of interest-bearing borrowings.



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## FINANCIAL INFORMATION

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- (4) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of each year/period, and multiplying the result by 100%. Net debt represents the sum of current and non-current portion of interest-bearing borrowings, net of cash and cash equivalents.
- (5) Interest coverage is calculated by dividing profit before interest and tax by interest expenses for the respective year/period.
- (6) Return on assets is calculated by dividing net profit by total assets as at the end of the respective year and multiplied by 100%.
- (7) Return on equity is calculated by dividing net profit by total equity as at the end of the respective year and multiplied by 100%.

### **Current ratio and quick ratio**

Our current ratio decreased slightly from 0.6 as at 31 December 2017 to 0.5 as at 31 December 2018 while quick ratio also remained stable at 0.5 as at 31 December 2017 and 2018. Our low current ratio and quick ratio as at 31 December 2017 and 2018 was mainly as a result of our loan from four Independent Third Parties of approximately RMB13.6 million, which was included in our other payables and accruals.

Our current ratio then increased to 1.3 and quick ratio to 1.2 as at 31 December 2019. The increase was mainly due to the increase in total current assets due to increase in debt investments at amortised cost of approximately RMB11.1 million and cash and cash equivalents of approximately RMB29.0 million.

Our current ratio then decreased slightly to 1.2 and quick ratio to 1.1 as at 30 June 2020. The decrease was mainly due to the decrease in current assets due to (i) the decrease in cash and cash equivalents of approximately RMB21.9 million, net off by the increase in prepayments, other receivables and other assets of approximately RMB3.6 million and increase in pledged deposits of approximately RMB10.5 million; and (ii) the increase in current liabilities due to increase in interest-bearing bank and other borrowings of approximately RMB8.1 million, net-off by the decrease in other payables and accruals of approximately RMB2.1 million and tax payable of approximately RMB3.5 million.

### **Gearing ratio and net debt to equity ratio**

Our gearing ratio increased from 97.4% as at 31 December 2017 to 181.2% as at 31 December 2018, while net debt to equity ratio increased from 37.3% as at 31 December 2017 to 45.4% as at 31 December 2018. The increase in gearing ratio was mainly due to the increase in lease liabilities of approximately RMB11.9 million, or 77.8%.

Our gearing ratio decreased to 35.7% as at 31 December 2019, mainly due to the increase in our Group's equity base. Net debt to equity ratio was not applicable as at 31 December 2019, due to that our cash and cash equivalent were higher than our debts and therefore we did not have a net debt position.

Our gearing ratio and net debt to equity ratio increased to 47.8% and 14.0% as at 30 June 2020, respectively, mainly due to the increase in interest-bearing bank and other borrowings of approximately RMB8.1 million.

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## FINANCIAL INFORMATION

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### Interest coverage

Our interest coverage decreased from 18.1 times for the year ended 31 December 2017 to 9.0 times for the year ended 31 December 2018. The decrease was mainly due to the interests incurred from a loan from an Independent Third Party of approximately RMB1.7 million.

Our interest coverage then decreased to 8.0 times for the year ended 31 December 2019. The decrease was mainly due to the decrease in our profit before interests and tax primarily attributable to our listing expenses incurred.

For the six months ended 30 June 2020, as our Group was suffering from loss before interest and tax, interest coverage was not applicable.

### Return on assets

Our return on assets decreased slightly from 21.2% for the year ended 31 December 2017 to 15.6% for the year ended 31 December 2018. The slight decrease was mainly due to the increase in total assets mainly driven by the increase of (i) property, plant and equipment; (ii) right-of-use asset; and (iii) cash and cash equivalents as at 31 December 2018.

Our return on assets then decreased significant to 5.6% for the year ended 31 December 2019, which was mainly due to (i) the significant increase in our total assets of approximately RMB65.3 million driven by the increase in debt investment at amortised cost of approximately RMB11.1 million and cash and cash equivalents of approximately RMB29.1 million; and (ii) the decrease in profit and total comprehensive income for the year due to the increase in listing expenses.

### Return on equity

Our return on equity increased from 111.1% for the year ended 31 December 2017 to 122.9% for the year ended 31 December 2018, mainly due to (i) the increase in our net profit by approximately RMB1.0 million; and (ii) the decrease in our total equity as at 31 December 2018 due to dividends declared to the then shareholders.

Our return on equity then decreased significant to 11.0% for the year ended 31 December 2019, which was mainly due to (i) the significant increase in our capital reserve of approximately RMB80.4 million due to the Reorganization; and (ii) the decrease in profit and total comprehensive income for the year due to the increase in listing expenses.

## FINANCIAL RISK

Our Group's principal financial instruments comprise cash and cash equivalents. 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 credit risk and liquidity risk.

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## FINANCIAL INFORMATION

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### **Credit risk**

Our Group trades only with recognised and creditworthy third parties. It is our Group's policy that all clients 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.

For further quantitative data in respect of our exposure to credit risk, please refer to "Credit Risk" in Note 39 to the Accountants' Report set out in Appendix I to this prospectus.

### **Liquidity risk**

Our 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.

For further quantitative data in respect of our exposure to liquidity risk, please refer to "Liquidity Risk" in Note 39 to the Accountants' Report set out in Appendix I to this prospectus.

### **DIVIDEND**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, we declared dividends of nil, approximately RMB19.4 million, RMB12.0 million and nil, respectively. All dividends declared for the year ended 31 December 2018 and 2019 had been fully settled in January 2020, among which approximately RMB12.6 million have been settled by cash and approximately RMB18.8 million have been settled by setting-off the amount due from the Controlling Shareholder and related companies. Pursuant to the Shareholders' written resolutions of the Company dated 12 April 2019, for the purpose of continuous development of the Group's subsidiaries in the PRC, it was resolved that those subsidiaries of the Company established in the PRC will not distribute earnings for the period from 1 April 2019 to 31 December 2019. The RMB12.0 million dividend declared for the year ended 31 December 2019 was distribution of retained earnings accumulated prior to 1 April 2019. Whether dividends will be paid and the amount of dividends to be paid will depend on our profitability, financial condition, business development, future prospects, future cash flow and such other factors as our Directors may consider relevant at the time of declaration of any dividends. It is also subject to the discretion of our Directors and the approval of our Shareholders. We do not have any pre-determined payout ratio.

Whether dividends will be paid and the amount of dividends to be paid will depend on, among other things, our profitability, financial condition, business development, future prospects, future cash flow and such other factors as our Directors may consider relevant at the time of declaration of any dividends subject to the discretion of our Directors. It is also subject to the approval of our Shareholders, the Companies Law, the Articles of Association as well as any applicable laws. We do not have any pre-determined payout ratio. For further details, please refer to Note 11 to the Accountants' Report set out in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### DISTRIBUTABLE RESERVES

Our Company was incorporated on 2 January 2018 and has not carried out any business since the date of its incorporation save for the transactions related to the Reorganization. Accordingly, there were no reserves available for distribution to our Shareholders as at 30 June 2020.

### LISTING EXPENSES

Our listing expenses are non-recurring in nature and represent professional fees, underwriting commission of the Global Offering, and other fees and expenses incurred in connection with the Listing and the Global Offering. Assuming the Over-allotment Option is not exercised, based on the Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative range of the Offer Price, the total estimated listing expenses (including the underwriting commission for both the Hong Kong Public Offering and the International Placing) are estimated to be approximately HK\$63.9 million (equivalent to RMB53.7 million), of which (i) approximately HK\$25.0 million (equivalent to RMB21.0 million) directly attributable to the issue of the Offer Shares in the Listing is to be accounted for as a deduction from equity in accordance with the relevant accounting standard; (ii) approximately HK\$2.8 million (equivalent to RMB2.3 million), HK\$18.2 (equivalent to RMB15.3 million) and HK\$11.6 million (equivalent to RMB9.7 million) that had been expensed through the consolidated statements of profit or loss for the year ended 31 December 2018 and 2019 and the six months ended 30 June 2020, respectively; and (iii) approximately HK\$6.3 million (equivalent to RMB5.4 million) is to be charged to the profit or loss of our Group for the year ending 31 December 2020. Our listing expenses represented approximately 53.3% of our gross proceeds from the Global Offering. The estimated listing expenses are subject to adjustments based on the actual amount of expenses incurred or to be incurred by our Group upon completion of the Listing. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2020 would be materially and adversely affected by the listing expenses mentioned above.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

An unaudited pro forma statement of adjusted consolidated net tangible assets of our Group, which was based on the net tangible assets attributable to equity shareholders of our Company as at 30 June 2020 and prepared in accordance with Rule 4.29 of the Listing Rules, is set out in Appendix II to this prospectus.

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## FINANCIAL INFORMATION

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### PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2020

We have prepared the following profit forecast for the year ending 31 December 2020.

Forecast consolidated profit attributable to owners of the Company <sup>(1)</sup>	Not less than RMB4.2 million (equivalent to HK\$5.0 million)
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Unaudited pro forma forecast earnings per Share <sup>(2)</sup>	Not less than RMB0.002 (equivalent to HK\$0.002)
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*Notes:*

- (1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2020 have been prepared are summarized in the “Profit Forecast” in Appendix III to this prospectus. Our forecast consolidated profit attributable to owners of the Company for the year ending 31 December 2020, for which our Directors are solely responsible, has been prepared by them based on (i) the audited consolidated financial information of our Group for the six months ended 30 June 2020 as set out in the Accountants’ Report in Appendix I to this prospectus; (ii) the unaudited consolidated results based on management accounts of our Group for the four months ended 31 October 2020; and (iii) a forecast of the consolidated results of our Group for the remaining two months ending 31 December 2020 taking into account the estimated total listing expenses of approximate RMB15.1 million for the year ending 31 December 2020, in the absence of unforeseen circumstances, and in particular the resurgence of the outbreak of COVID-19 in the PRC. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarized in the “Accountants’ Report” as set out in Appendix I to this prospectus.
- (2) The calculation of the unaudited pro forma forecast earnings per Share for the year ending 31 December 2020 is based on the forecast consolidated profit attributable to owners of the Company for the year ending 31 December 2020, assuming the Global Offering had been completed on 30 June 2020 and a total of 2,055,000,000 Shares were in issue during the entire year, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

### NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that save for the extent disclosed in the section headed “Summary — Recent Development” and the listing expenses to be incurred as detailed in the paragraph headed “Listing Expenses” in this section, (i) there were no material adverse changes in the market conditions or the industry environment in which we operate that materially and adversely affect our financial or operating position since 30 June 2020 and up to the date of this prospectus; (ii) there was no material adverse change in the trading and financial position or prospects of our Group since 30 June 2020 and up to the date of this prospectus; and (iii) no event had occurred since 30 June 2020 and up to the date of this prospectus that would materially and adversely affect the information shown in the Accountants’ Report in Appendix I to this prospectus.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.

### FUTURE PLANS

Please refer to the section headed “Business — Our Strategies” for a detailed description of our future plans.

### REASONS FOR THE LISTING

Our business objective is to continue to secure our position as a leading aesthetic medical service provider in Zhejiang Province. Our Directors believe that the Listing will facilitate the implementation of our business strategies as stated in the section headed “Business — Our strategies” in this prospectus and will strengthen our market position and expand our market share in the industry.

Our Directors believe that the Listing on the Stock Exchange is beneficial to our Company and our Shareholders as a whole, notwithstanding the Listing expenses involved, for the following reasons:

- **Genuine funding needs**

According to the Frost & Sullivan Report, the aesthetic medical services market in China will grow at a CAGR of 17.3% from 2019 to 2024, being the fastest-growing market among the ten largest markets globally in terms of revenue. Our profitability may be affected by a number of factors as set out in the section headed “Financial Information — Key Factors Affecting our Results of Operations” in this prospectus including the number of clients and aesthetic medical procedures performed, our brand awareness and client satisfaction and service mix etc. While we can adjust our pricing and promotional strategy to increase our profitability, our business development and profitability is limited by the service capacity of our aesthetic medical institutions, for example, the availability of operation rooms and service rooms to provide aesthetic medical services to our clients. Our overall utilization rate for our four aesthetic medical institutions was high and reached approximately 80.6% during the year ended 31 December 2019.

In addition, according to the Frost & Sullivan Report, it is an industry norm that aesthetic medical institution be regularly renovated in order to provide a fresh brand image and a sense of novelty to clients. We believe it is vital to provide our clients with a comfortable environment at our aesthetic medical institutions to enhance their client experience. Therefore, we believe if the utilization rate is too high, it may have an adverse effect on clients’ experience.

Taking into account the limitations in our existing service capacity, our Directors believe that in order to satisfy the growing demand of aesthetic medical services, it is essential to regularly renovate our aesthetic medical institution and increase our service capacity for the provision of high-quality aesthetic medical services.



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## FUTURE PLANS AND USE OF PROCEEDS

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Significant costs were incurred in the course of opening our aesthetic medical institutions as substantial capital investment for renovation and purchases of aesthetic medical equipment were involved. Previously, we funded such costs primarily by our internal resources and interest free shareholders' loans and experienced a lengthy investment payback period, being the approximate period from commencement of operations of an aesthetic medical institution to the time when its accumulated net cash inflow is able to cover the total initial investment amount for its establishment (which includes investment by equity and shareholder loans), of an average of approximately 47 months; and a lengthy breakeven period, being the approximate period from the commencement of operations of an aesthetic medical institution to the time when its monthly revenue first sufficiently covers its monthly operating expenses, of an average of approximately 21 months. Our Directors therefore expected that in establishing new aesthetic medical institutions, our Group will be subject to substantial cash flow pressure where our profits from existing aesthetic medical institutions may not generate sufficient profits to cover our operating expenses for any new aesthetic medical institutions before we reach the point of breakeven and investment payback.

The total investment amount of approximately RMB190.0 million (equivalent to HK\$226.2 million) with respect to our expansion plan together with our indebtedness of approximately RMB35.5 million as at 31 October 2020 are significantly larger than our cash and cash equivalent of approximately RMB41.3 million as at 31 October 2020. As a result, we have a genuine funding need. For details of the total investment amount and the business strategies, please refer to the section headed "Business — Our Strategies" in this prospectus.

The Listing status provides a platform for our Group to access the capital markets for future secondary fund-raising through either (i) the issuance of shares or (ii) for debt securities, depending on the prevailing market condition at the time of capital needs. It can also provide additional funding sources to cater for our Group's further expansion plans (other than those future plans stated in this prospectus) and when opportunities arise.

- **Difficulties in obtaining debt financing**

As at 31 October 2020, being the latest practicable date for our indebtedness, we had a total of RMB35.5 million outstanding indebtedness and an unutilized banking facility of RMB2.0 million, where a certain portion of our cash was pledged to the bank as collateral. Due to the nature of our business, we do not hold any significant property or fixed assets which could be provided to the bank as collateral. Therefore, our Directors believe that we will not be granted with substantial bank borrowings as the assets we can pledge as collaterals are limited.

Furthermore, the ability to obtain bank financing is generally easier with a listed entity as compared to a private entity and our Directors believe that a Listing status will allow us to gain leverage in obtaining bank financing with relatively more favourable terms in the PRC and Hong Kong, in which the latter in general has a lower interest rate than the former.

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## FUTURE PLANS AND USE OF PROCEEDS

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- **Enhancing corporate profile**

The Listing status can also enhance our corporate profile, visibility and our market presence to generate reassurance among our suppliers. By way of the Listing, we can elevate our corporate image and status and provide greater reassurance and confidence to our clients and suppliers. Our Directors believe when clients select aesthetic medical service providers, clients will give credit to and place trust and confidence in companies with a listing status which have sufficient operating cash on hand and cash inflow as well as the transparency in operation and enhanced internal control measures. We also have a stronger bargaining position when exploring new business opportunities with our suppliers.

- **Enhancing employee incentive and commitment**

Human resources and talents are vital to our business. Being a listed company can help to attract, recruit and retain our valued physicians, other skilled professionals and management personnel and to provide additional incentive. To this end, we have also put in place the Share Option Scheme for our employees in order to attract and retain talents. Please refer to the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix V to this prospectus for a summary of principal terms of the scheme.

## USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses, and assuming an Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative Offer Price Range) will be approximately HK\$56.0 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

- (i) approximately 28.0%, or HK\$15.7 million, will be used for renovating all our existing aesthetic medical institutions and expanding our Hangzhou Raily, Raily Tiange and Wuhu Raily, in order to increase capacity, refresh our brand image and expand market share. For further information, please see the section headed “Business — Our Strategies — Expanding our aesthetic medical institutions network — Renovation and expansion of existing aesthetic medical institutions” in this prospectus;
- (ii) approximately 28.0%, or HK\$15.7 million, will be used for funding the capital expenditure and initial operating costs for establishing our new aesthetic medical institution in Shanghai City. For more details, please refer to the section headed “Business — Our Strategies — Expanding our aesthetic medical institutions network — Organic growth” in this prospectus;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (iii) approximately 15.0%, or HK\$8.4 million, will be used for potential strategic acquisition of aesthetic medical institutions in Zhejiang Province in the PRC. For more details, please refer to the section headed “Business — Our Strategies — Expanding our aesthetic medical institutions network — Strategic acquisitions” in this prospectus;
- (iv) approximately 11.0%, or HK\$6.1 million, will be used for the purchase of aesthetic medical service equipment and medical consumables to improve certain aesthetic medical procedures and to extend the spectrum of our aesthetic medical services. For further information, please see the section headed “Business — Our Strategies — Acquire new aesthetic medical service equipment and treatment consumables to extend the spectrum of our treatment services offered in our current aesthetic medical institutions” in this prospectus;
- (v) approximately 8.0%, or HK\$4.5 million, will be used for active promotion of our brand; and
- (vi) approximately 10%, or HK\$5.6 million, will be used for our general working capital and other general corporate purposes.

If the Offer Price is set at HK\$0.40 per Offer Share (being the high-point of the indicative Offer Price Range), we will receive additional net proceeds of approximately HK\$14.4 million. If the Offer Price is set at HK\$0.30 per Offer Share (being the low-point of the indicative Offer Price Range), the net proceeds we will receive will be reduced by approximately HK\$14.4 million. We intend to apply the net proceeds to the above purposes on a pro rata basis. If the Over-allotment Option is exercised in full or in part, we estimate that the additional net proceeds from offering of these additional Shares will be approximately HK\$18.0 million, we intend to apply the additional net proceeds from the exercise of the Over-allotment Option to the above purposes on a pro rata basis.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans to a material extent and/or there be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short term deposits with licensed banks and authorized financial institutions for as long as it is in our best interests.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

Innovax Securities Limited

Elstone Securities Limited

BOCOM International Securities Limited

Essence International Securities (Hong Kong) Limited

First Fidelity Capital (International) Limited

Kingkey Securities Group Limited

Kirin Securities Limited

Realord Asia Pacific Securities Limited

Sun International Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 34,250,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company agreeing on the Offer Price), the Hong Kong Underwriters have agreed, severally but not jointly, to subscribe for, or procure subscribers to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Offer Shares are fully underwritten pursuant to the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

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## UNDERWRITING

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### *Grounds for termination of the Hong Kong Underwriting Agreement*

If any of the events set out below shall occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice (orally or in writing) to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect:

- (a) there shall develop, occur or come into force:
  - (i) any new law or regulation or any change in existing Laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the U.S., the BVI, the Cayman Islands or any other jurisdiction(s) relevant to our Company and our subsidiaries which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or
  - (ii) any change in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and/or disasters in Hong Kong, the PRC, the U.S., the BVI, the Cayman Islands or any other jurisdiction(s) relevant to our Company and our subsidiaries which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or
  - (iii) without prejudice to sub-paragraph (i) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or any other similar event; or
  - (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) would or might adversely affect any member of our Group or its present or prospective shareholders in their capacity as such; or
  - (v) any material adverse change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong, the PRC, the U.S., the BVI, the Cayman Islands or any other jurisdiction(s) to which any member of our Group is subject or the implementation of any exchange

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## UNDERWRITING

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controls which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) would or might adversely affect any member of our Group or its present or prospective shareholders in their capacity as such in a material way; or

- (vi) any litigation or claim of material importance to the business, financial or operations of our Group being threatened or instituted against any member of our Group, our Controlling Shareholders, or any Directors; or
- (vii) the imposition of economic sanctions or similar actions, directly or indirectly, in Hong Kong, the PRC, the U.S., the BVI, the Cayman Islands or any other jurisdiction(s) relevant to any member of our Group which in the reasonable opinion of the Joint Global Coordinators would or might adversely affect any member of our Group or its present or prospective shareholders in their capacity as such; or
- (viii) save as disclosed in this prospectus, any Governmental Authority, governmental or regulatory commission, board, body, self-regulatory organisation or other non-government regulatory authority, or any tribunal or arbitrator, or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of our Group or Director; or
- (ix) order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (x) any such event, which, individually, or in the aggregate, in the reasonable opinion of the Sole Sponsor or the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), (i) has or may have a material adverse effect on the success of the Global Offering, or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or (ii) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of our Group as a whole; or (iii) makes it inadvisable or inexpedient to proceed with the Global Offering; or (iv) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or



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## UNDERWRITING

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- (b) there comes to the notice of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) any matter or event showing any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their reasonable opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the other warrantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their reasonable opinion to be material; or
- (c) there comes to the notice of the Sole Sponsor any matter or event which, in the sole and absolute opinion of the Sole Sponsor, has or will or may affect our Group's ability in achieving the forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2020 as stated in this prospectus, or make the bases and assumptions on which such forecast consolidated profit attributable to the owners of the Company for the year ending 31 December 2020 has been prepared become untrue, incomplete, inaccurate or misleading in any respect; or
- (d) there comes to the notice of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) any breach on the part of our Company or any of the other warrantors of any provisions of the Hong Kong Underwriting Agreement in any respect which is considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their reasonable opinion to be material; or
- (e) any statement contained in this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, the submissions, documents or information provided to the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal advisers to the Joint Global Coordinators and the Underwriters and any other parties involved in the Global Offering which has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
- (f) matters have arisen or have been discovered which would, if this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, was to be issued at that time, constitute a material omission of such information; or

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## UNDERWRITING

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- (g) there is any adverse change or prospective adverse change in the business or in the financial or trading performance, position or prospects of our Group which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) is material after discussion with our Company; or
- (h) the approval of the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue and to be issued under the Global Offering and the Shares to be issued pursuant to the Capitalisation Issue and under the Global Offering (including any Shares which may be issued upon the exercise of any options to be granted under the Share Option Scheme and pursuant to the exercise of the Over-allotment Option) is refused or not granted, other than subject to customary conditions, on or before 8:00 a.m. (Hong Kong time) on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (i) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or
- (j) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (k) there comes to the notice of the Joint Global Coordinators or any of the Underwriters any information, matter or event which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):
  - (i) is inconsistent in any material respect with any information contained in the Declaration and Undertaking with regard to Directors (Form B) given by any Directors pursuant to the Global Offering; or
  - (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group.

### **Undertakings to the Stock Exchange**

#### ***Undertaking by our Company***

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that except pursuant to the Global Offering (including the Over-allotment Option), no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of our Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

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## UNDERWRITING

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### *Undertaking by our Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that except pursuant to the Global Offering (including the Over-allotment Option), they will not, and will procure that the relevant registered holder(s) of our Shares in which any of them has a beneficial interest will not, at any time:

- (a) during the period commencing on the date by reference to which disclosure of his/her/its interests in our Company is made in this prospectus and ending on the date falling six months from the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owners; or
- (b) in the six-month period commencing on the expiry of the First Six-month Period set out in paragraph (a) above (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities mentioned in paragraph (a) if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder of our Company for the purposes of the Listing Rules.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his/its shareholdings is made in this prospectus and to the date which is 12 months from the Listing Date, they will:

- (a) when he/it pledge or charge any securities of our Company or interests therein beneficially owned by him/her/it in favour of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he/it receive indications, either verbal or written, from the pledgee or chargee that any of the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

Each of the Controlling Shareholders, jointly and severally, undertakes to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save for the offer of the Offer Shares pursuant to the Global Offering (including the Over-allotment Option and any lending of Shares by Ruide BVI pursuant to the Stock Borrowing Agreement), without the

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## UNDERWRITING

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prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of the Controlling Shareholders will, and will procure that none of its/his/her close associates will:

- (i) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months from the Listing Date (the “**First Six Month Period**”), (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) (the foregoing restriction is expressly agreed to include the Controlling Shareholders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period); and
- (ii) he, she or it will not, during the period of six months commencing on the date on which the First Six Month Period expires and including, the date that is six months after the end of the First Six Month Period (the “**Second Six Month Period**”), enter into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he, she or it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company or cease

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## UNDERWRITING

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to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him, her or it and/or any of his, her or its close associates which owns such Shares or interests as aforesaid; and

- (iii) until the expiry of the Second Six Month Period, in the event that he, she or it enters into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offers to or agrees to or announces any intention to effect any such transaction, he, she or it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the Over-allotment Option) and the issue and allotment of Shares pursuant to the Capitalization Issue as disclosed in this prospectus, during the First Six Month Period, our Company undertakes to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters not to, and to procure each member of our Group not to:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other members of our Group, as applicable); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such members of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

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## UNDERWRITING

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in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six Month Period, our Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Company, our Controlling Shareholders and executive Directors undertakes to each of the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph.

Each of our Company, our Controlling Shareholders and executive Directors undertakes to and covenants with the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, no company in our Group will during the First Six Month Period purchase any securities of our Company.

### **The International Placing**

#### ***The International Underwriting Agreement***

In connection with the International Placing, it is expected that our Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, our Company will offer our International Placing Shares for subscription and purchase by professional, institutional and other investors at the Offer Price payable in full on subscription and purchase in Hong Kong dollars, on and subject to the terms and conditions set out in the International Underwriting Agreement and the placing documents. It is expected that the International Underwriters will agree to severally underwrite for our International Placing Shares.

It is expected that pursuant to the International Underwriting Agreement, our Company and our Controlling Shareholders will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement in the paragraph headed “Undertakings pursuant to the Hong Kong Underwriting Agreement” in this section.

#### ***Over-allotment Option***

Our Company is expected to grant to the International Underwriters the Over-allotment Option exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time until Sunday, 17 January 2021, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 51,375,000 additional Shares, representing 15% of the Offer Shares, at the Offer Price per Offer Share under the International Placing, solely to cover the over-allocations, if any, under the International Placing. For further details of the Over-allotment Option, please refer to the section headed “Structure of the Global Offering” in this prospectus.



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## UNDERWRITING

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### INDEMNITY

We, Controlling Shareholders and executive Directors have agreed to indemnify the Underwriters against certain liabilities, including losses arising from their performance of their obligations under the Underwriting Agreements and any breach by our Company, Controlling Shareholders and executive Directors.

### Commissions and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 16% of the aggregate Offer Price in respect of all the Hong Kong Offer Shares. The International Underwriters are expected to receive an underwriting commission of 16% of the aggregate Offer Price in respect of all the International Placing Shares. In addition, the Company may at its sole discretion pay any one or all of the Underwriters an additional incentive fee of up to an aggregate of no more than 1% of the aggregate Offer Price for all Offer Shares.

In consideration of the Sole Sponsor's services in sponsoring the Global Offering, the Sole Sponsor will receive a sponsor fee. Such underwriting commission and sponsor fee, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering which are currently estimated to be approximately HK\$63.9 million in aggregate (assuming an Offer Price of HK\$0.35 per Offer Share (being the midpoint of the indicative Offer Price of HK\$0.30 to HK\$0.40 per Offer Share)), are to be borne by us, without taking into account the commissions and expenses relating to the exercise of the Over-allotment Option.

### UNDERWRITERS' INTEREST IN OUR COMPANY

Save for the interests and obligations under the relevant Underwriting Agreements, none of the Joint Global Coordinators and the Underwriters is interested legally or beneficially in the shares of any of our Group's members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group.

### INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. A total of initially 342,500,000 Offer Shares, representing approximately 16.7% of our Company's issued share capital immediately after completion of the Global Offering and the Capitalization Issue without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option, will be made available under the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering which will be offered to the public in Hong Kong of 34,250,000 Offer Shares (subject to re-allocation), representing 10% of the Offer Shares; and
- the International Placing which will be conditionally placed with selected professional, institutional and other investors of 308,250,000 Offer Shares (subject to re-allocation and the Over-allotment Option), representing 90% of the Offer Shares.

Assuming the Over-allotment Option is fully exercised, the Offer Shares will represent approximately 18.7% of our Company's issued share capital immediately after completion of the Global Offering and the Capitalization Issue.

Investors may apply for the Hong Kong Offers Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, in the International Placing Shares under the International Placing, but may not do both.

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters will underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed "Underwriting" in this prospectus.

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offering is conditional upon, among others:

#### 1. Listing

The Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the options to be granted under the Share Option Scheme and pursuant to the exercise of the over-allotment) on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares;

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## STRUCTURE OF THE GLOBAL OFFERING

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### 2. Underwriting Agreements

- (i) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional, and not being terminated in accordance with the terms of the respective agreements; and
- (ii) the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date;

### 3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not beyond the 30th day after the date of this prospectus.

If any of the above conditions is not fulfilled or waived on or before the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.ruilizx.com](http://www.ruilizx.com) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus. In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

**Share certificates for the Offer Shares are expected to be issued on Thursday, 24 December 2020 but will only become valid certificates of title at 8:00 a.m. on Monday, 28 December 2020 provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of the share certificates or prior to the share certificates bearing valid certificates of title do so entirely as their own risk.**

## HONG KONG PUBLIC OFFERING

### Number of Offer Shares initially offered

Our Company is initially offering 34,250,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the re-allocation of Shares between (i) the International Placing; and (ii) the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent approximately 1.67% of our Company's issued share capital immediately after completion of the Global Offering and the Capitalization

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## STRUCTURE OF THE GLOBAL OFFERING

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Issue without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Hong Kong Public Offering” in this section.

### **Allocation**

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total available Shares under the Hong Kong Public Offering (after taking into account of any re-allocation of Offer Shares between the Hong Kong Public Offering and the International Placing) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B with any odd board lots being allocated to pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in pool A and pool B will be 17,130,000 and 17,120,000, respectively. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this section only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 50% Hong Kong Offer Shares are liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Re-allocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to re-allocation. Assuming that the Over-allotment Option is not exercised, the allocation of the Offer Shares shall be subject to re-allocation on the following basis:

- (a) where the International Placing Shares are fully subscribed or oversubscribed:
  - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) have the authority (but shall not under any obligation) in their absolute discretion to re-allocate all or any unsubscribed Hong Kong Offer Shares to the International Placing from the Hong Kong Public Offering, in such proportion as the Joint Global Coordinators deem appropriate;
  - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed and the number of Offer Shares validly applied for the Hong Kong Public Offering represents less than 15 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 34,250,000 Offer Shares may be re-allocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 68,500,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
  - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 68,500,000 Offer Shares may be re-allocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 102,750,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
  - (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 102,750,000 Offer Shares may be re-allocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 137,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and

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## STRUCTURE OF THE GLOBAL OFFERING

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- (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 137,000,000 Offer Shares may be re-allocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 171,250,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).
- (b) where the International Placing Shares are undersubscribed:
  - (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering will not proceed unless fully underwritten by the Underwriters on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
  - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed, irrespective of the number of times of the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 34,250,000 Offer Shares may be re-allocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Share available under the Hong Kong Public Offering will be increased to 68,500,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may be re-allocated as between these offerings at the discretion of the Joint Global Coordinators to satisfy valid applications under the Global Offering. However, in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, in the event that (i) the International Pacing Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such re-allocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 68,500,000 Offer Shares); and the final Offer Price shall be fixed at the bottom end of the indicative price range (i.e. HK\$0.30 per Offer Share).

In the event of a re-allocation of Offer Shares from the International Placing to the Hong Kong Public Offering in circumstances under paragraphs (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the International Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option. In each case, the additional Offer Shares re-allocated to the Hong Kong Public Offering will be allocated between pool A and pool B, in such manner as the Joint Global Coordinators deem



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## STRUCTURE OF THE GLOBAL OFFERING

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appropriate. If the Hong Kong Offer Shares are undersubscribed in circumstances under paragraphs (a)(i) and (b)(i) above, the Joint Global Coordinators have the discretion to re-allocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportion as the Joint Global Coordinators deem appropriate.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$0.40 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph "Price Determination of the Global Offering" below in this section, is less than the maximum price of HK\$0.40 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### **INTERNATIONAL PLACING**

#### **Number of Offer Shares offered**

The number of Offer Shares to be initially offered for subscription under the International Placing will be 308,250,000 Shares (subject to re-allocation and the Over-allotment Option). Subject to any re-allocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent 15.0% of our enlarged issued share capital immediately after completion of the Global Offering without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme.

The International Placing is subject to the same conditions as stated in the paragraph headed "Conditions of the Hong Kong Public Offering" above in this section.

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Allocation**

Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the book-building process and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

### **Over-allotment Option**

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Joint Global Coordinators (for themselves and on behalf of the Underwriters) that is exercisable at the sole discretion of the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to 51,375,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocation, if any, in the International Placing. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.4% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option but without taking into account any Shares which may fall to be issued upon the exercise of any options to be granted under the Share Option Scheme. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

### **DETERMINATION OF THE OFFER PRICE**

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Friday, 18 December 2020, and in any event not later than Sunday, 20 December 2020, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Offer Price will be not more than HK\$0.40 per Share and is expected to be not less than HK\$0.30 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

**Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Global Coordinators, for themselves and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Shares below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.ruilizx.com](http://www.ruilizx.com) notices of the reduction in the indicative Offer Price range and/or number of Offer Shares. Upon issue of such a notice, the revised Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range and/or number of Offer Shares. Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

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## STRUCTURE OF THE GLOBAL OFFERING

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In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may, at their discretion, re-allocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing, provided that the number of Hong Kong Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Share Offer (assuming the Over-allotment Option is not exercised). The Hong Kong Offer Shares to be offered under the Hong Kong Public Offering and the International Placing Shares to be offered under the International Placing may, in certain circumstances, be re-allocated between these offerings at the discretion of the Joint Global Coordinators.

If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants who have submitted an application under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

The Offer Price, the levels of indication of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares under the Hong Kong Public Offering, are expected to be announced on Thursday, 24 December 2020 in the manner set out in the section headed “How to Apply for Hong Kong Offer Shares — 11. Publication of Results” in this prospectus.

### RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.40 per Share and is expected to be not less than HK\$0.30 per Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$0.40 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK\$4,040.31 per board lot of 10,000 Offer Shares.

If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$0.40 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

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## STRUCTURE OF THE GLOBAL OFFERING

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### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates, up to 51,375,000 Shares, representing 15% of our Offer Shares, from Ruide BVI to cover over-allocation under the stock borrowing arrangement (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including exercising the Over-allotment Option.

If such stock borrowing arrangement with Ruide BVI is entered into, it will only be effected by the stabilising manager or its agent for settlement of over-allocation in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. Such requirements include: (i) the Stock Borrowing Agreement must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Placing; (ii) the maximum number of Shares to be borrowed from Ruide BVI is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option; (iii) the same number of Shares so borrowed is returned to Ruide BVI or its nominee (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full; (iv) borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with applicable Listing Rules, laws and other regulatory requirements; and (v) no payments will be made to Ruide BVI by the Stabilising Manager in relation to the stock borrowing arrangement.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

The Stabilising Manager has been appointed by us as the stabilising manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Global Offering, Stabilising Manager or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date.

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## STRUCTURE OF THE GLOBAL OFFERING

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Any such stabilising activity will be made in compliance with all applicable laws, rules and regulations on stabilisation including the Securities and Futures (Price Stabilising) Rules made under the SFO. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilisation activity is required to be brought to an end within 30 days from the last date for lodging application under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be made available upon exercise of the Over-allotment Option, being 51,375,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Subject to and under the Securities and Futures (Price Stabilising) Rules of the SFO, the Stabilising Manager, its affiliates or any person acting for it, may take all or any of the following stabilising action in Hong Kong during the stabilisation period:

- (1) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (2) in connection with any action described in paragraph (1) above:
  - (a) (i) over-allocate our Shares; or
  - (ii) sell or agree to sell the Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our Shares;
  - (b) exercise the Over-allotment Option and subscribe for or purchase, or agree to subscribe for or purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under subparagraph (a) above;
  - (c) sell or agree to sell any Shares acquired by it in the course of the stabilising action referred to in paragraph (1) above in order to liquidate any position that has been established by such action; and
  - (d) offer or attempt to do anything described in subparagraphs (a)(ii), (b) or (c) above.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position;



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## STRUCTURE OF THE GLOBAL OFFERING

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- liquidation of any such long position by the Stabilising Manager, its affiliates or any person acting for it, may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on Sunday, 17 January 2021, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

A public announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

### COMMENCEMENT OF DEALINGS

Assuming the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 28 December 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 28 December 2020.

The Shares will be traded in board lots of 10,000 Shares each. The stock code of the Company is 2135.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** at [www.hkeipo.hk](http://www.hkeipo.hk) or by the **IPO App**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- a close associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for or indicated an interest in any International Placing Shares or otherwise participated in the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 15 December 2020 until 12:00 noon on Friday, 18 December 2020 from:

- (i) any of the following addresses of the Joint Global Coordinators:

**Innovax Securities Limited**

Unit A–C, 20/F, Neich Tower  
128 Gloucester Road, Wanchai  
Hong Kong

**Elstone Securities Limited**

Suite 1601–04, 16/F.  
West Tower, Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (ii) any of the following branches of the receiving bank, DBS Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	United Centre Branch	Shops 1015–1018 on 1/F & Shops 2032–2034 on 2/F, United Centre 95 Queensway Admiralty
Kowloon	Nathan Road — SME Banking Centre	2/F, Wofoo Commercial Building 574–576 Nathan Road Mongkok
New Territories	Sheung Shui Branch	G/F, 5 San Tsoi Street Sheung Shui

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 15 December 2020 until 12:00 noon on Friday, 18 December 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Ting Hong Nominees Limited — Raily Aesthetic Medicine Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times and on the following dates:

**Tuesday, 15 December 2020 — 9:00 a.m. to 4:00 p.m.**  
**Wednesday, 16 December 2020 — 9:00 a.m. to 4:00 p.m.**  
**Thursday, 17 December 2020 — 9:00 a.m. to 4:00 p.m.**  
**Friday, 18 December 2020 — 9:00 a.m. to 12:00 noon**

To safeguard the health and safety of its employees and customers in light of the rapidly changing novel coronavirus situation in Hong Kong, the receiving bank referred to above may adjust its branch services (including branch operation hours) from time to time. For the latest arrangement on branch services, please refer to the website of the receiving bank at <https://www.dbs.com.hk/personal/default.page>.

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 18 December 2020, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Cayman Companies Act and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering and the **HK eIPO white Form** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the paragraph headed "Personal Collection" in this section to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “Who Can Apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names or the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or through the **IPO App**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website or the **IPO App**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website or the **IPO App**, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for Submitting Applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider in at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 15 December 2020 until 11:30 a.m. on Friday, 18 December 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 18 December 2020 or such later time under the paragraph headed “10. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
**Customer Service Centre**  
1/F, One & Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

and complete an input request form.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You can also collect a prospectus from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

### Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
  - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for ourselves and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of number of 10,000 Hong Kong Offer Shares. Instructions for more than 10,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions *(Note)*

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Tuesday, 15 December 2020 — 9:00 a.m. to 8:30 p.m.**  
**Wednesday, 16 December 2020 — 8:00 a.m. to 8:30 p.m.**  
**Thursday, 17 December 2020 — 8:00 a.m. to 8:30 p.m.**  
**Friday, 18 December 2020 — 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 15 December 2020 until 12:00 noon on Friday, 18 December 2020 (24 hours daily, except on Friday, 18 December 2020 the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 18 December 2020, the last application day or such later time as described in paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

*Note:* The times in this section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving banker, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 18 December 2020.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 10,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 10,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or in the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Hong Kong Public Offering — Allocation” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 December 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 18 December 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 24 December 2020 on our Company's website at [www.ruilizx.com](http://www.ruilizx.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.ruilizx.com](http://www.ruilizx.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Thursday, 24 December 2020;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) (or [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult)) or the "Allotment Result" function in the IPO App with a "search by ID Number/Business Registration Number" function on a 24-hour basis from 8:00 a.m. on Thursday, 24 December 2020 to 12:00 midnight on Thursday, 31 December 2020;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 24 December 2020 to Wednesday, 30 December 2020 (excluding Saturday and Sunday or public holiday in Hong Kong);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 24 December 2020 to Tuesday, 29 December 2020 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and the International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### **13. REFUND OF APPLICATION MONIES**

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 24 December 2020.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 24 December 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Share certificates will only become valid at 8:00 a.m. on Monday, 28 December 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 24 December 2020 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant who is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 24 December 2020, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 24 December 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Thursday, 24 December 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*If you apply through a designated CCASS Participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

*If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 24 December 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

***(iii) If you apply through the HK eIPO White Form Service***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 24 December 2020, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 24 December 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*(iv) If you apply via electronic application instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 24 December 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" in this section on Thursday, 24 December 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 24 December 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 24 December 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 24 December 2020.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report on the financial information of Raily Aesthetic Medicine International Holdings Limited, prepared for the purpose of incorporation in this prospectus received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

The Directors  
Raily Aesthetic Medicine International Holdings Limited  
Innovax Capital Limited

Dear Sirs,

We report on the historical financial information of Raily Aesthetic Medicine International Holdings Limited (the “**Company**”, formerly known as Raily Healthcare Holdings Limited) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-80, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2017, 2018 and 2019 and the six month ended 30 June 2020 (the “**Track Record Period**”), and the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 and the statement of financial position of the Company as at 31 December 2018, 2019 and 30 June 2020 and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-80 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 15 December 2020 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

## **DIRECTORS’ RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION**

The directors of the Company (the “**Directors**”) are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

## **REPORTING ACCOUNTANTS’ RESPONSIBILITY**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute



of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 and the Company as at 31 December 2018, 2019 and 30 June 2020 and of the financial performance and cash flows of the Group for the Track Record Period in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

## REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in notes 2.1 and 2.2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain

assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in notes 2.1 and 2.2 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

**Dividends**

We refer to note 11 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

**No historical financial statements for the Company**

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

15 December 2020

**I. HISTORICAL FINANCIAL INFORMATION****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) (the “**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## 1. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended	
		2017	2018	2019	2019	2020
	Note II	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
<b>REVENUE</b>	5	112,932	158,935	191,156	92,081	58,730
Cost of sales		(38,390)	(66,442)	(90,118)	(44,907)	(34,444)
Gross profit		74,542	92,493	101,038	47,174	24,286
Other income and gains	5	65	592	1,626	1,008	1,090
Selling and distribution expenses		(37,020)	(44,667)	(50,172)	(26,502)	(15,126)
Administrative expenses		(12,392)	(18,489)	(33,405)	(15,614)	(20,289)
Finance costs	7	(1,361)	(3,291)	(2,336)	(1,182)	(1,208)
Other expenses		(502)	(255)	(363)	(94)	(1,105)
<b>PROFIT/(LOSS) BEFORE TAX</b>	6	23,332	26,383	16,388	4,790	(12,352)
Income tax credit/(expense)	10	(5,927)	(7,965)	(6,111)	(2,582)	575
<b>PROFIT/(LOSS) FOR THE YEAR/ PERIOD</b>		<u>17,405</u>	<u>18,418</u>	<u>10,277</u>	<u>2,208</u>	<u>(11,777)</u>
Attributable to:						
Owners of the parent		17,379	17,855	9,897	2,198	(12,000)
Non-controlling interests		26	563	380	10	223
		<u>17,405</u>	<u>18,418</u>	<u>10,277</u>	<u>2,208</u>	<u>(11,777)</u>
<b>OTHER COMPREHENSIVE INCOME</b>						
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:						
Equity investment designated at fair value through other comprehensive income:						
Changes in fair value		—	—	—	—	(92)
Income tax effect		—	—	—	—	23
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR/PERIOD, NET OF TAX</b>		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(69)</u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD</b>		<u>17,405</u>	<u>18,418</u>	<u>10,277</u>	<u>2,208</u>	<u>(11,846)</u>
Earnings/(loss) per share for profit attributable to owners of the Company for the year/period	12	<u>0.29</u>	<u>0.30</u>	<u>0.17</u>	<u>0.04</u>	<u>(0.20)</u>

## 2. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2017	2018	2019	30 June
	Note II	RMB'000	RMB'000	RMB'000	2020
					RMB'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	13	11,418	19,063	24,119	22,203
Intangible assets	14	125	340	401	457
Right-of-use assets	28	13,853	27,401	25,121	22,601
Goodwill	15	20,639	20,639	20,639	20,210
Deferred tax assets	16	3,209	5,076	8,669	9,964
Equity investment designated at fair value through other comprehensive income	17	—	—	6,000	5,908
Other non-current assets		464	2,718	4,877	4,661
<b>Total non-current assets</b>		<u>49,708</u>	<u>75,237</u>	<u>89,826</u>	<u>86,004</u>
<b>CURRENT ASSETS</b>					
Supplies	18	4,177	6,087	7,894	6,536
Trade receivables	19	4,381	5,097	8,321	5,418
Prepayments, other receivables and other assets	20	8,257	10,735	15,762	19,356
Due from the controlling shareholder	36(b)	5,856	—	—	—
Due from related companies	36(b)	300	325	865	—
Debt investments at amortised cost	22	—	—	11,055	11,110
Other current financial assets	23	—	—	—	5,375
Pledged deposits	24	—	—	—	10,500
Cash and cash equivalents	24	9,418	20,355	49,410	27,499
<b>Total current assets</b>		<u>32,389</u>	<u>42,599</u>	<u>93,307</u>	<u>85,794</u>
<b>CURRENT LIABILITIES</b>					
Interest-bearing bank and other borrowings	29	—	—	6,948	15,005
Due to the controlling shareholder	36(b)	—	8,854	1,672	5
Due to related companies	36(b)	—	5,680	245	—
Trade payables	25	5,953	6,463	8,475	10,323
Other payables and accruals	26	34,495	32,995	19,868	17,764
Refund liabilities	27	1,569	5,027	6,092	6,191
Lease liabilities	28	3,749	6,240	6,619	6,747
Contract liabilities	5	1,015	2,661	5,221	5,675
Tax payable		8,077	13,090	14,928	11,435
<b>Total current liabilities</b>		<u>54,858</u>	<u>81,010</u>	<u>70,068</u>	<u>73,145</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>(22,469)</u>	<u>(38,411)</u>	<u>23,239</u>	<u>12,649</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>27,239</u>	<u>36,826</u>	<u>113,065</u>	<u>98,653</u>

		As at 31 December			As at
		2017	2018	2019	30 June
	Note II	RMB'000	RMB'000	RMB'000	2020
					RMB'000
<b>NON-CURRENT LIABILITIES</b>					
Lease liabilities	28	11,512	20,927	19,765	17,172
Deferred tax liabilities	16	<u>60</u>	<u>909</u>	<u>25</u>	<u>52</u>
<b>Total non-current liabilities</b>		<u>11,572</u>	<u>21,836</u>	<u>19,790</u>	<u>17,224</u>
<b>NET ASSETS</b>		<u>15,667</u>	<u>14,990</u>	<u>93,275</u>	<u>81,429</u>
<b>EQUITY</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	30	—	325	4	4
Reserves	31	<u>16,281</u>	<u>14,716</u>	<u>93,054</u>	<u>80,985</u>
		16,281	15,041	93,058	80,989
Non-controlling interests		<u>(614)</u>	<u>(51)</u>	<u>217</u>	<u>440</u>
<b>Total equity</b>		<u>15,667</u>	<u>14,990</u>	<u>93,275</u>	<u>81,429</u>



## 3. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Notes	Attributable to owners of the parent							
	Share capital	Capital reserves	Fair value reserve of financial assets at fair value through other comprehensive income	Statutory surplus reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 (note 30)	RMB'000 (note 31)	RMB'000	RMB'000 (note 31)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	—	(8,216)	—	346	11,502	3,632	(640)	2,992
Profit and total comprehensive income for the year	—	—	—	—	17,379	17,379	26	17,405
Transfer to statutory surplus reserve	—	—	—	917	(917)	—	—	—
Acquisition of subsidiaries from the controlling shareholder	(i)	(5,030)	—	—	—	(5,030)	—	(5,030)
Transfer of interest to the controlling shareholder	(ii)	300	—	—	—	300	—	300
At 31 December 2017	—	(12,946)*	—*	1,263*	27,964*	16,281	(614)	15,667
Profit and total comprehensive income for the year	—	—	—	—	17,855	17,855	563	18,418
Transfer to statutory surplus reserve	—	—	—	2,759	(2,759)	—	—	—
Issue of shares	(iii)	325	—	—	—	325	—	325
Transfer of interest to the controlling shareholder	(iv)	—	500	—	—	500	—	500
Issue of shares to the then shareholder	(v)	—	1,000	—	—	1,000	—	1,000
Acquisition of interest from the then shareholders	(vi)	—	(1,500)	—	—	(1,500)	—	(1,500)
Dividends declared to the then shareholders	—	—	—	—	(19,420)	(19,420)	—	(19,420)
At 31 December 2018	325	(12,946)*	—*	4,022*	23,640*	15,041	(51)	14,990
Profit and total comprehensive income for the year	—	—	—	—	9,897	9,897	380	10,277
Transfer to statutory surplus reserve	—	—	—	4,212	(4,212)	—	—	—
Issue of shares	(vii)	1	79,747	—	—	79,748	—	79,748
Repurchase and cancellation of shares	(vii)	(322)	—	—	—	(322)	—	(322)
Capital injection from the controlling shareholder	(viii)	—	857	—	—	857	—	857
Dividends declared to the then shareholders	—	—	—	—	(11,961)	(11,961)	—	(11,961)
Deemed disposal of equity to the non-controlling interests	(ix)	—	(202)	—	—	(202)	202	—
Deemed distribution to the controlling shareholder	(x)	—	—	—	—	—	(314)	(314)
At 31 December 2019	4	67,456*	—*	8,234*	17,364*	93,058	217	93,275
At 31 December 2018	325	(12,946)*	—*	4,022*	23,640*	15,041	(51)	14,990
Profit and total comprehensive income for the period	—	—	—	—	2,198	2,198	10	2,208
Issue of shares	(vii)	1	79,747	—	—	79,748	—	79,748
Repurchase and cancellation of shares	(vii)	(322)	—	—	—	(322)	—	(322)
Capital injection from the controlling shareholder	(viii)	—	857	—	—	857	—	857
Dividends declared to the then shareholders	—	—	—	—	(11,961)	(11,961)	—	(11,961)
Deemed disposal of equity to the non-controlling interests	(ix)	—	(202)	—	—	(202)	202	—
At 30 June 2019 (Unaudited)	4	67,456*	—*	4,022*	13,877*	85,359	161	85,520
At 31 December 2019	4	67,456*	—*	8,234*	17,364*	93,058	217	93,275
Loss for the period	—	—	—	—	(12,000)	(12,000)	223	(11,777)
Other comprehensive loss for the period:								
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	(69)	—	—	(69)	—	(69)
At 30 June 2020	4	67,456*	(69)*	8,234*	5,364	80,989	440	81,429

- \* These reserve accounts comprise the consolidated reserves of RMB16,281,000, RMB14,716,000, RMB93,054,000, RMB85,355,000 and RMB80,985,000 in the consolidated statements of financial position at 31 December 2017, 2018 and 2019 and 30 June 2019 and 2020, respectively.
- (i) In February 2017, Raily Beauty completed the acquisition of a 100% equity interest in Ruian Raily and a 78% equity interest in Wuhu Raily at considerations of RMB2,000,000 and RMB780,000, respectively. In March 2017, Raily Beauty acquired an additional 45% equity interest in Hangzhou Raily from the controlling shareholder at a consideration of RMB2,250,000. Capital reserves decreased accordingly.
- (ii) On 25 December 2017, Raily Beauty transferred a 30% equity interest in Wuhu Raily to Ningbo Ruixuan Investment Management Partnership (LL.P.) owned by the controlling shareholder at a consideration of RMB300,000 as part of the Reorganization. Capital reserves increased accordingly.
- (iii) On 2 January 2018, 50,000 shares were issued to Ruide Consultation Limited at a consideration of USD1.00 per share.
- (iv) On 2 January 2018, Raily Beauty transferred a 10% equity interest in Hangzhou Raily to Ningbo Ruixuan Investment Management Partnership (LL.P.) at a consideration of RMB500,000 as part of the Reorganization. Capital reserves increased accordingly.
- (v) As part of the Reorganization, Beauty Milkway (HK) Limited (“**Beauty Milkway**”), the then shareholder subscribed a 5% equity interest in Raily Beauty at a consideration of RMB1,000,000, which was settled on 14 September 2018. The consideration of RMB1,000,000 was recorded in capital reserves.
- (vi) On 14 September 2018, Raily HK acquired a 100% equity interest in Raily Beauty from the controlling shareholder and Beauty Milkway at considerations of RMB500,000 and RMB1,000,000, respectively. Capital reserves decreased by RMB1,500,000 accordingly.
- (vii) On 24 January 2019, 50,000 issued shares with a par value of USD1.00 each in the capital of the Company were subdivided into USD0.01 each, such that immediately following the share division the authorised share capital of the Company became USD50,000 divided into 5,000,000 shares with a par value of USD0.01 each. On the same date, 4,956,500 shares were repurchased by the Company from Ruide Consultation Limited at a purchase price of USD49,565. Upon the completion of such share repurchase, the repurchased shares were cancelled. Thereafter, Ruide Consultation Limited held 43,500 shares which represented the entire issued share capital of the Company.
- On 24 January 2019, the Company allotted 3,500 ordinary shares with a par value of USD0.01 to Beauty Milkway (HK) Limited (“**Beauty Milkway**”) at a consideration of RMB1,400,000 and 3,000 ordinary shares with a par value of USD0.01 each to Youxin Management Co., Limited (“**Youxin Management**”) at a consideration of RMB1,200,000. The consideration amount exceeding the nominal amount of the shares issued was recorded in the share premium of the Company.
- On 29 April 2019, Ruide BVI transferred 2,967, 1,125 and 974 shares in the Company to Success Concept, Mr. Cheng Lei Jack and Beauty Milkway for consideration of RMB8,575,000, RMB10,125,000 and RMB8,763,600, respectively.
- On 30 April 2019, the Company allotted 3,889 ordinary shares with a par value of USD0.01 each to Huamei Medical Investment Fund Limited for a consideration of RMB35,000,000, 3,889 ordinary shares with a par value of USD0.01 each to Shanghai Donghua Health Management Partnership (Limited Partnership) (上海東燼健康管理合夥企業(有限合夥)) for a consideration of RMB35,000,000, and 1,556 ordinary shares with a par value of USD0.01 each to Shanghai Paibo Management Consulting Partnership (Limited Partnership) (上海湃帛管理諮詢合夥企業(有限合夥)) for a consideration of RMB14,000,000. Pursuant to the agreement with Youxin Management, the Company paid commission at 8% of RMB6,745,000 for the financing. The net proceeds of RMB78,664,000 after deducting the commission exceeding the nominal amount of the shares issued were recorded in the share premium of the Company.

- (viii) On 21 June 2019, Ningbo Ruixuan Investment Management Partnership (LL.P.) (“**Ningbo Ruixuan**”) injected capital in Ruian Raily (a subsidiary of the Company) (in note II-1) of RMB857,000.
- (ix) Pursuant to the reorganisation, the 8% equity interest in Wuhu Raily held by Ningbo Ruixuan was attributable to the non-controlling interests.
- (x) On 26 September 2019, Ningbo Ruixuan and Mr. Wang Yuming decreased the capital of Wuhu Raily (a subsidiary of the Company) (in note II-1) by RMB245,000 and RMB69,000 respectively. Accordingly, non-controlling interests decreased by RMB314,000.

## 4. CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note II	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Profit/(loss) before tax		23,332	26,383	16,388	4,790	(12,352)
Adjustments for:						
Loss/(gain) on disposal of items of property, plant and equipment and right-of-use assets		54	14	(131)	(35)	5
Investment income		—	(219)	(595)	(108)	(150)
Finance expenses	7	1,361	3,291	2,336	1,182	1,208
Depreciation of right-of-use assets	6, 28	3,182	3,585	5,902	2,998	2,920
Depreciation of property, plant and equipment	6, 13	4,295	4,908	5,784	2,794	3,640
Provision/(reversal of provision) for impairment of receivables and other receivables		387	(305)	64	16	235
Impairment of property, plant and equipment	13	—	—	—	—	54
Impairment of goodwill	15	—	—	—	—	429
Amortisation of intangible assets	6, 14	31	55	67	33	35
Lease payments waived	28	—	—	—	—	(1,823)
Gain on foreign exchange differences		—	—	(4)	(13)	(5)
		32,642	37,712	29,811	11,657	(5,804)
(Increase)/decrease in supplies		(773)	(1,910)	(1,807)	176	1,358
(Increase)/decrease in trade receivables		316	(719)	(3,209)	(115)	2,925
(Increase)/decrease in prepayments, other receivables and other assets		(4,145)	(2,173)	(5,107)	(868)	(3,847)
Increase in trade payables		3,637	510	2,012	1,381	1,848
Increase/(decrease) in contract liabilities		36	1,293	3,220	(263)	454
Increase/(decrease) in refund liabilities		(82)	3,459	1,065	221	99
Increase/(decrease) in other payables and accruals		2,990	(2,145)	1,074	3,324	(2,105)
Cash generated from/(used in) operations		34,621	36,027	27,059	15,513	(5,072)
Income tax paid		(73)	(3,970)	(10,078)	(8,195)	(4,166)
Net cash flows from/(used in) operating activities		34,548	32,057	16,981	7,318	(9,238)

	<i>Note II</i>	Year ended 31 December			Six months ended	
		2017	2018	2019	30 June 2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
<b>CASH FLOWS FROM</b>						
<b>INVESTING ACTIVITIES</b>						
Increase in amounts due from the controlling shareholder		(15,041)	(21,127)	(6,342)	(6,353)	(1,667)
Increase/(decrease) in amounts due from related companies		—	—	(1,206)	(1,980)	865
Acquisition of subsidiaries	32	(3,825)	—	—	—	—
Purchases of items of property, plant and equipment		(2,611)	(12,723)	(10,832)	(5,858)	(1,567)
Purchases of items of intangible assets		(26)	(2,370)	(2,528)	(128)	(91)
Purchase of financial investments		—	—	(49,500)	(35,150)	(5,300)
Purchase of equity investment designated at fair value through other comprehensive income		—	—	(6,000)	—	—
Proceeds from disposal of items of property, plant and equipment		35	2	236	226	—
Increase in pledged deposits		—	—	—	—	(10,500)
Proceeds from disposal of financial investments		—	219	39,040	22	20
Net cash flows used in investing activities		(21,468)	(35,999)	(37,132)	(49,221)	(18,240)

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
<i>Note II</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Issue of shares to a then shareholder	—	1,000	—	—	—
Receipt of contribution from the controlling shareholder	—	—	1,157	857	—
Payment of capital reduction	—	—	—	—	(245)
Loan from banks	—	—	6,948	—	8,057
Loan from an independence third party	—	33,330	—	—	—
Interest paid	—	—	(34)	—	(188)
Repayment of loan from independent third party	(8,000)	—	(13,600)	(13,600)	—
Dividends paid	—	(12,600)	(18,781)	(13,341)	—
Net proceeds from issue of shares	—	—	80,092	83,662	—
Payment of lease liabilities	<u>(4,227)</u>	<u>(6,851)</u>	<u>(6,580)</u>	<u>(2,738)</u>	<u>(2,062)</u>
Net cash flows from/(used in) financing activities	<u>(12,227)</u>	<u>14,879</u>	<u>49,202</u>	<u>54,840</u>	<u>5,562</u>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	853	10,937	29,051	12,937	(21,916)
Net foreign exchange difference	—	—	4	13	5
Cash and cash equivalents at beginning of the year/period	<u>8,565</u>	<u>9,418</u>	<u>20,355</u>	<u>20,355</u>	<u>49,410</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD</b>	24 <u>9,418</u>	<u>20,355</u>	<u>49,410</u>	<u>33,305</u>	<u>27,499</u>



## 5. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December		As at
		2018	2019	30 June
	<i>Note II</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSET</b>				
Investment in a subsidiary		<u>322</u>	<u>322</u>	<u>322</u>
Total non-current assets		<u>322</u>	<u>322</u>	<u>322</u>
<b>CURRENT ASSETS</b>				
Prepayments, other receivables and other assets		—	6,660	1,998
Due from related companies	36(b)	325	67,285	57,556
Cash and cash equivalents		<u>9</u>	<u>1,762</u>	<u>7,995</u>
Total current assets		<u>334</u>	<u>75,707</u>	<u>67,549</u>
<b>CURRENT LIABILITIES</b>				
Other payables and accruals		<u>331</u>	<u>3</u>	<u>3</u>
Total current liabilities		<u>331</u>	<u>3</u>	<u>3</u>
<b>NET CURRENT ASSETS</b>		<u>3</u>	<u>75,704</u>	<u>67,546</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>				
		<u>325</u>	<u>76,026</u>	<u>67,868</u>
<b>NET ASSETS</b>		<u>325</u>	<u>76,026</u>	<u>67,868</u>
<b>EQUITY</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	30	325	4	4
Reserves	31	<u>—</u>	<u>76,022</u>	<u>67,864</u>
<b>Total equity</b>		<u>325</u>	<u>76,026</u>	<u>67,868</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 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 Track Record Period, the subsidiaries now comprising the Group were principally engaged in the provision of aesthetic medical services and consulting services.

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the paragraph headed “Reorganization” in the section headed “History and Reorganization” in the prospectus (the “**Reorganization**”). The Company became the holding company of the subsidiaries now comprising the Group in September 2018 and completed the Reorganization in September 2019. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

In the opinion of the directors of the Company, the ultimate controlling shareholder of the Group is Mr. Fu Haishu. As at the end of the Track Record Period, the Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Notes	Date and place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Raily Medical Management Limited (“ <b>Raily BVI</b> ”) 瑞麗醫療管理有限公司	(a)	British Virgin Islands 16 January 2018	USD50,000	100%	—	Investment holding
Raily Medical Limited (“ <b>Raily HK</b> ”) 瑞麗醫療有限公司	(b)	Hong Kong 2 February 2018	HKD10,000	—	100%	Consulting service
Hangzhou Raily Beauty Cosmetology Consulting Service Co., Ltd. (“ <b>Raily Beauty</b> ”)* 杭州瑞麗美容諮詢服務有限公司	(c)	PRC/Mainland China 10 March 2005	RMB20,000,000	—	100%	Investment holding
Hangzhou Raily Aesthetic Medical Hospital Co., Ltd. (“ <b>Hangzhou Raily</b> ”)* 杭州瑞麗醫療美容醫院有限公司	(d)	PRC/Mainland China 9 August 2013	RMB20,000,000	—	100%**	Aesthetic medical service
Hangzhou Raily Tiange Plastic Surgery Out-patient Department Co., Ltd. (“ <b>Raily Tiange</b> ”)* 杭州瑞麗天鵝整形外科門診部 有限公司	(d)	PRC/Mainland China 28 September 2007	RMB3,333,300	—	100%**	Aesthetic medical service
Ruian Raily Aesthetic Medical Hospital Co., Ltd. (“ <b>Ruian Raily</b> ”)* 瑞安瑞麗醫療美容醫院有限公司	(d)	PRC/Mainland China 18 March 2013	RMB20,000,000	—	100%**	Aesthetic medical service

Name of company	Notes	Date and place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Wuhu Raily Aesthetic Medical Out-patient Department Co., Ltd. (“Wuhu Raily”)* 蕪湖瑞麗醫療美容門診部有限公司	(a)	PRC/Mainland China 3 July 2015	RMB685,800	—	70%***	Aesthetic medical service
Guangzhou Yingjieshi Management Consulting Co., Ltd. (“Guangzhou Yingjieshi”)* 廣州英傑仕管理諮詢有限公司	(a)	PRC/Mainland China 10 June 2015	RMB2,000,000	—	100%	Consulting service
Ningbo Zhuerli Beauty Consulting Service Co., Ltd. (“Ningbo Zhuerli”)* 寧波珠兒麗美容諮詢服務有限公司	(a)	PRC/Mainland China 13 April 2017	RMB1,000,000	—	100%	Consulting service
Wuhu Raily Medical Equipment Trading Co., Ltd. (“Raily Equipment”)* 蕪湖瑞麗醫療器械貿易有限公司	(a)	PRC/Mainland China 17 September 2015	RMB1,000,000	—	100%****	Medical equipment trading
Shenzhen Ruiquan Management Consulting Co., Ltd. (“Shenzhen Ruiquan”)* 深圳瑞泉管理諮詢有限公司	(a)	PRC/Mainland China 29 August 2019	RMB10,000,000	—	100%****	Consulting service

\* 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.

\*\* A 30% equity interest in this entity was attributable to the Company during the Track Record Period. From 1 January 2019, the 30% equity interest in this entity is attributable to the Company through variable interest entity (“VIE”) agreement.

\*\*\* During the year of 2017 and 2018, the 22% equity interest of this entity is attributable to the non-controlling interests. From 1 January 2019, the 30% equity interest of this entity is attributable to the non-controlling interests.

\*\*\*\* Raily Equipment and Shenzhen Ruiquan carried out no business activities during the Track Record Period.

(a) No audited financial statements have been prepared for these entities since their dates of incorporation, as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

(b) No audited financial statements have been prepared for this entity as this entity was incorporated in 2018.

(c) No audited financial statements of the entity were prepared for the years ended 31 December 2019 as the entity was not subject to statutory audit requirements. The financial statements of the entity for the year ended 31 December 2017 were audited by Zhejiang Puhua Certified Public Accountants Co., Ltd for other business purposes.

- (d) No audited financial statements of the entity were prepared for the years ended 31 December 2019 as the entity was not subject to statutory audit requirements. The financial statements of the entity for the year ended 31 December 2017 were audited by Zhejiang Ruixing Certified Public Accountants Co., Ltd for other business purposes.

## 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in the paragraph headed “Reorganization” in the section headed “History and Reorganization” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 14 September 2018. The subsidiaries acquired by the Company were under common control of the controlling shareholder before and after the Reorganization. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss and other comprehensive income, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Track Record Period include the results of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under common control of the controlling shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 have been prepared to present the assets and liabilities of the Group using the existing book values from the controlling shareholder’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganization.

Equity interest in subsidiaries held by parties other than the controlling shareholder prior to the Reorganization is presented as non-controlling interest in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

As the Company was incorporated in January 2018, there are no statements of financial position of the Company as at 31 December 2017.

## 2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 January 2020, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, amendments to IFRS 15 *Clarifications to IFRS 15 Revenue from Contracts with Customers* and IFRS 16 *Leases*, together with the relevant transitional provisions have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Track Record Period.

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the *Covid-19* pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the *Covid-19* pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's working spaces have been waived by the lessors as a result of the Covid-19 pandemic and there are no other changes to the terms of the leases. Hence, the Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the Covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB1,823,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

The Historical Financial Information has been prepared under the historical cost convention except for financial assets and financial liabilities at fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI") which have been measured at fair value.

The Group had net current liabilities of RMB22,469,000 and RMB38,411,000 as at 31 December 2017 and 2018, respectively. Having taken into account the expected cash flows from operations, the net cash inflows subsequently received from the investors of RMB80,092,000 in April 2019, and the Group had net current assets of RMB23,239,000 and RMB12,649,000 as at 31 December 2019 and 30 June 2020, respectively, the Directors consider that it is appropriate to prepare the Historical Financial Information on a going concern basis.

The Historical Financial Information does not include any adjustments that would result from the failure of the Group to continue the business as a going concern.

### 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Historical Financial Information. The Group intends to adopt them, if applicable, when they become effective.

IFRS 17	<i>Insurance Contracts</i> <sup>4</sup>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>4</sup>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> <sup>2</sup>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>2</sup>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> <sup>2</sup>
<i>Annual Improvements to IFRS Standards 2018–2020 Cycle</i>	<i>Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41</i> <sup>2</sup>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> <sup>3</sup>
Amendments to IFRS 4	<i>Extension of the Temporary Exemption from Applying IFRS 9</i> <sup>4</sup>
Amendments to IFRS 17	<i>Insurance Contracts</i> <sup>4, 6</sup>
Amendments to IAS 28 and IFRS 10	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>5</sup>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>5</sup> No mandatory effective date yet determined but available for adoption

<sup>6</sup> As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that the adoption of them will not have material impact on the Group's financial position and financial performance.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of consolidation**

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).

When the Company has, directly or indirectly, 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 included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable.

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 (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) 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.

### **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 interest 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 that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation 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.

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 interest 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 the end of year. 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.

#### **Fair value measurement**

The Group measures its equity investments and non-principal-protected investments at fair value at the end of the Track Record 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.

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.

#### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial 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.

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 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

- (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.

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	20% to 33.3%
Office and other equipment	20% to 33.3%
Leasehold improvements	20% to 33.3%
Motor vehicles	20%

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 represents a building renovation project under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress 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
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All research costs are charged to profit or loss as incurred.

#### **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 rights 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	2 to 10 years
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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.

*(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 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 for staff (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 as 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 of not adjusting the effect of a significant financing component, 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 in accordance with the policies set out for "Revenue recognition" below.

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 a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., 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 the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, 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 the statement of profit or loss.

#### **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 risk 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 the Group's 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 ECLs). 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 ECLs).

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 a financial asset in default when contractual payments are 90 days past due. 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 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.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

## **Financial liabilities**

### ***Initial recognition and measurement***

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

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

The Group's financial liabilities include trade payables, lease liabilities, other payables and accruals, amounts due to the controlling shareholder and related companies.

### ***Subsequent measurement***

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

#### ***Financial liabilities at amortised cost (loans and borrowings)***

After initial recognition, interest-bearing loans and 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 the statement of 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 a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the 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, or to realise the assets and settle the liabilities simultaneously.

**Supplies**

Supplies, consisting primarily of pharmaceutical and medical supplies inventories, are stated at the lower of cost and net realizable value, which approximates market value, and are expensed as used.

**Cash and cash equivalents**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**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 the 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 the 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 liability 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;
- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

Deferred tax assets are recognised for all deductible temporary differences, 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, 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
- in respect of deductible temporary differences associated with investments in subsidiaries, 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 the Track Record 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 the 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.

## **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 contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

#### ***(a) Rendering of aesthetic medical services***

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

The Group provides certain outpatient aesthetic medical services in package which is accounted as multiple elements of services. The total transaction prices of the package 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.

**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.

**Other employee benefits**

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 19% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

**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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted

from the borrowing costs capitalised. 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.

#### **Foreign currencies**

The Historical Financial Information is 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 currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of 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 JUDGEMENTS AND ESTIMATES**

The preparation of the Group's Historical Financial Information 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.

#### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

##### ***Lease commitments — Group as lessee***

The Group has entered into property, plant and equipment leases 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.



**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Track Record Period, 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.

***Estimating 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 expected refund on a regular basis and the refund liabilities are adjusted accordingly. The amount recognised as refund liabilities for the expected refund was RMB1,569,000, RMB5,027,000, RMB6,092,000 and RMB6,191,000 as at 31 December in 2017, 2018 and 2019 and 30 June 2020.

***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 2017, 2018 and 2019 was RMB20,639,000, and that at 30 June 2020 was RMB20,210,000. Further details are given in note 15 to the Historical Financial Information.

***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 16 to the Historical Financial Information.

**4 OPERATING SEGMENT INFORMATION**

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

- (a) Aesthetic medical services comprise principally inpatient services including surgical services and outpatient services including injection service, dermatology service and others;
- (b) Consulting services comprise principally management consulting services and aesthetic training courses.

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 listing expenses. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision-maker for review.

## Year ended 31 December 2017

	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue (note 5):</b>			
External customers	<u>112,932</u>	<u>—</u>	<u>112,932</u>
Segment results	<u>23,769</u>	<u>—</u>	<u>23,769</u>
Other income and gains			65
Group and unallocated expenses			<u>(502)</u>
Profit before income tax			<u><u>23,332</u></u>
<b>Other segment information:</b>			
Impairment losses recognised in the statement of profit or loss, net	387	—	387
Depreciation and amortisation	7,508	—	7,508
Capital expenditure*	2,637	—	2,637

## Year ended 31 December 2018

	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue (note 5):</b>			
External customers	<u>146,256</u>	<u>12,679</u>	<u>158,935</u>
Segment results	<u>32,644</u>	<u>497</u>	<u>33,141</u>
Other income and gains			592
Group and unallocated expenses			(5,683)
Finance costs (other than interests on lease liabilities)			<u>(1,667)</u>
Profit before income tax			<u><u>26,383</u></u>
<b>Other segment information:</b>			
Impairment losses recognised in the statement of profit or loss, net	(325)	20	(305)
Depreciation and amortisation	7,617	931	8,548
Capital expenditure*	10,634	4,459	15,093

## Year ended 31 December 2019

	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue (note 5):</b>			
External customers	<u>183,609</u>	<u>7,547</u>	<u>191,156</u>
Segment results	<u>31,506</u>	<u>1,749</u>	<u>33,255</u>
Other income and gains			1,626
Group and unallocated expenses			(18,459)
Finance costs (other than interests on lease liabilities)			<u>(34)</u>
Profit before income tax			<u><u>16,388</u></u>
<b>Other segment information:</b>			
Impairment losses recognised in the statement of profit or loss, net	57	7	64
Depreciation and amortisation	10,638	1,115	11,753
Capital expenditure*	10,884	2,476	13,360

## Six months ended 30 June 2019 (unaudited)

	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue (note 5):</b>			
External customers	<u>88,699</u>	<u>3,382</u>	<u>92,081</u>
Segment results	<u>12,761</u>	<u>136</u>	<u>12,897</u>
Other income and gains			1,008
Group and unallocated expenses			<u>(9,115)</u>
Profit before income tax			<u><u>4,790</u></u>
<b>Other segment information:</b>			
Impairment losses recognised in the statement of profit or loss, net	16	—	16
Depreciation and amortisation	5,208	617	5,825
Capital expenditure*	3,523	2,463	5,986

## Six months ended 30 June 2020

	Aesthetic medical services RMB'000	Consulting services RMB'000	Total RMB'000
<b>Segment revenue (note 5):</b>			
External customers	57,476	1,254	58,730
Segment results	609	(719)	(110)
Other income and gains			1,090
Group and unallocated expenses			(13,144)
Finance costs (other than interests on lease liabilities)			(188)
Loss before income tax			(12,352)
<b>Other segment information:</b>			
Impairment losses recognised in the statement of profit or loss, net	(62)	780	718
Depreciation and amortisation	6,165	430	6,595
Capital expenditure*	1,547	111	1,658

\* Capital expenditure consists of additions to property, plant and equipment, other non-current assets and intangible assets including assets from the acquisition of a subsidiary.

**Geographical information****(a) Revenue from external customers**

All significant external customers of the Group are located in Mainland China. Accordingly, no geographical information of external customers is presented.

**(b) Non-current assets**

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of segment assets is presented.

**Information about a major customer**

No revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020.

## 5 REVENUE AND OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue from contracts with customers					
Aesthetic medical services	112,932	146,256	183,609	88,699	57,476
Consulting services	—	12,679	7,547	3,382	1,254
	<u>112,932</u>	<u>158,935</u>	<u>191,156</u>	<u>92,081</u>	<u>58,730</u>

## Revenue from contracts with customers

## (i) Disaggregated revenue information

For the year ended 31 December 2017

	Aesthetic medical services
Segments	RMB'000
Services	<u>112,932</u>
Geographical market	
Mainland China	<u>112,932</u>
Timing of revenue recognition	
Services transferred at a point in time	98,884
Services transferred over time	<u>14,048</u>
	<u>112,932</u>
Revenue from contracts with customers	
External customers	<u>112,932</u>

## For the year ended 31 December 2018

Segments	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
Services	<u>146,256</u>	<u>12,679</u>	<u>158,935</u>
<b>Geographical market</b>			
Mainland China	<u>146,256</u>	<u>12,679</u>	<u>158,935</u>
<b>Timing of revenue recognition</b>			
Services transferred at a point in time	133,441	1,490	134,931
Services transferred over time	<u>12,815</u>	<u>11,189</u>	<u>24,004</u>
	<u>146,256</u>	<u>12,679</u>	<u>158,935</u>
<b>Revenue from contracts with customers</b>			
External customers	<u>146,256</u>	<u>12,679</u>	<u>158,935</u>

## For the year ended 31 December 2019

Segments	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
Services	<u>183,609</u>	<u>7,547</u>	<u>191,156</u>
<b>Geographical market</b>			
Mainland China	<u>183,609</u>	<u>7,547</u>	<u>191,156</u>
<b>Timing of revenue recognition</b>			
Services transferred at a point in time	166,766	95	166,861
Services transferred over time	<u>16,843</u>	<u>7,452</u>	<u>24,295</u>
	<u>183,609</u>	<u>7,547</u>	<u>191,156</u>
<b>Revenue from contracts with customers</b>			
External customers	<u>183,609</u>	<u>7,547</u>	<u>191,156</u>



## For the six months ended 30 June 2019 (unaudited)

Segments	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
Services	<u>88,699</u>	<u>3,382</u>	<u>92,081</u>
<b>Geographical market</b>			
Mainland China	<u>88,699</u>	<u>3,382</u>	<u>92,081</u>
<b>Timing of revenue recognition</b>			
Services transferred at a point in time	80,686	57	80,743
Services transferred over time	<u>8,013</u>	<u>3,325</u>	<u>11,338</u>
	<u>88,699</u>	<u>3,382</u>	<u>92,081</u>
<b>Revenue from contracts with customers</b>			
External customers	<u>88,699</u>	<u>3,382</u>	<u>92,081</u>

## For the six months ended 30 June 2020

Segments	Aesthetic medical services <i>RMB'000</i>	Consulting services <i>RMB'000</i>	Total <i>RMB'000</i>
Services	<u>57,476</u>	<u>1,254</u>	<u>58,730</u>
<b>Geographical market</b>			
Mainland China	<u>57,476</u>	<u>1,254</u>	<u>58,730</u>
<b>Timing of revenue recognition</b>			
Services transferred at a point in time	46,408	—	46,408
Services transferred over time	<u>11,068</u>	<u>1,254</u>	<u>12,322</u>
	<u>57,476</u>	<u>1,254</u>	<u>58,730</u>
<b>Revenue from contracts with customers</b>			
External customers	<u>57,476</u>	<u>1,254</u>	<u>58,730</u>

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue recognised from performance obligations satisfied in previous periods:					
Sale of services not previously recognised due to constraints on variable consideration	<u>786</u>	<u>215</u>	<u>3,712</u>	<u>2,156</u>	<u>3,377</u>

**(ii) Contract liabilities**

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities	<u>1,015</u>	<u>2,661</u>	<u>5,221</u>	<u>5,675</u>

Contract liabilities represented the obligations to provide services to a customer for which the Group has received consideration.

**(a) Significant changes in contract liabilities**

The changes in the contract liabilities are mainly attributable to the advances received to transfer services to customers and satisfaction of performance obligations.

**(b) Revenue recognised in relation to contract liabilities**

The following table shows the revenue recognised during the Track Record Period that was included in the contract liabilities at the beginning of the Track Record Period.

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>—</u>	<u>1,015</u>	<u>2,661</u>	<u>2,661</u>	<u>4,324</u>

**(iii) Performance obligations**

Information about the Group's performance obligations is summarised below:

**Rendering of outpatient aesthetic medial services**

The performance obligation is satisfied upon the services are rendered and payment in advance is normally required.

*Rendering of inpatient aesthetic medial services*

The performance obligation is satisfied over time and payment in advance is normally required.

*Rendering of consulting services*

The performance obligation of consulting contracts with fixed terms is satisfied over time when the services are rendered and payment is generally received in advance or due periodically with a credit term of 30 to 90 days. The performance obligation of other consulting contracts is satisfied when the services are rendered.

The amount of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within one year	<u>1,015</u>	<u>2,661</u>	<u>5,221</u>	<u>5,675</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue mainly relate to medical aesthetic service packages, of which the performance obligations that are to be satisfied during the service period. The amounts disclosed above do not include variable consideration which is constrained.

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Other income</b>					
Interest income	9	33	110	54	65
Investment income of financial investments	—	219	595	108	150
Reverse of impairment of trade receivables and other receivables	—	305	—	—	—
Government subsidies	—	—	—	—	276
Lease payment waived	—	—	—	—	571
Others	<u>56</u>	<u>35</u>	<u>76</u>	<u>22</u>	<u>28</u>
	<u>65</u>	<u>592</u>	<u>781</u>	<u>184</u>	<u>1,090</u>
<b>Gains</b>					
Gain on disposal of items of property, plant and equipment and right-of-use assets	—	—	131	35	—
Exchange gains	<u>—</u>	<u>—</u>	<u>714</u>	<u>789</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>845</u>	<u>824</u>	<u>—</u>
	<u>65</u>	<u>592</u>	<u>1,626</u>	<u>1,008</u>	<u>1,090</u>

## 6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	<i>Notes</i>	Year ended 31 December			Six months ended	
		2017	2018	2019	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
Employee benefit expense (excluding directors' and chief executive's remuneration ( <i>note 8</i> ))						
Wages and salaries		32,959	41,396	56,136	26,967	22,021
Pension scheme contributions		2,371	4,853	6,434	2,713	1,176
Staff welfare expenses		1,187	1,142	2,604	1,293	1,679
Cost of supplies consumed		19,378	34,282	47,327	23,388	19,241
Impairment of financial assets, net:						
Impairment of trade receivables, net	19	20	3	(15)	(89)	(22)
Impairment of financial assets included in prepayments, other receivables and other assets, net	20	367	(308)	79	105	257
Impairment of property, plant and equipment	13	—	—	—	—	54
Impairment of goodwill	15	—	—	—	—	429
Amortisation of intangible assets	14	31	55	67	33	35
Depreciation of property, plant and equipment	13	4,295	4,908	5,784	2,794	3,640
Depreciation of right-of-use assets	28	3,182	3,585	5,902	2,998	2,920
Loss/(gain) on disposal of items of property, plant and equipment		54	14	(4)	(8)	5
Gain on derecognition of right-of-use		—	—	(127)	(27)	—
Expense relating to short-term leases		2,089	1,902	66	47	20
Listing expenses (including reporting accountants' remuneration)		—	2,349	15,316	7,392	9,727
Promotion and marketing expenses		15,122	22,705	23,257	12,921	6,909

## 7 FINANCE COSTS

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Interest on lease liabilities	1,361	1,624	2,302	1,182	1,020
Interest on bank borrowings	—	—	34	—	188
Interest on other loans	—	1,667	—	—	—
	1,361	3,291	2,336	1,182	1,208

**8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION**

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors at any time during the years ended 31 December 2017 since the Company was incorporated on 2 January 2018.

Mr. Fu Haishu was appointed as an executive director and Chairman of the Company on 2 January 2018. Mr. Yu Kai and Mr. Song Jianliang were appointed as executive directors of the Company on 30 May 2019. Mr. Xie Lijun and Ms. Fan Qirui were appointed as non-executive directors of the Company on 30 May 2019. Mr. Cao Dequan, Ms. Yang Xiaofen and Mr. Liu Teng were appointed as independent non-executive directors of the Company on 30 May 2019.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Other emoluments:					
Salaries, allowances and benefits in kind	1,585	2,484	2,618	1,553	1,104
Pension scheme contributions	<u>35</u>	<u>75</u>	<u>70</u>	<u>50</u>	<u>32</u>
	<u>1,620</u>	<u>2,559</u>	<u>2,688</u>	<u>1,603</u>	<u>1,136</u>

**(a) Independent non-executive directors**

There were no fees and other emoluments payable to any independent non-executive director during the Track Record Period.

## (b) Executive directors

	Salaries, allowances, benefits in kind and welfare <i>RMB'000</i>	Pension scheme contribution <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2017:			
Executive directors:			
Mr. Song Jianliang	1,239	—	1,239
Mr. Yu Kai	216	—	216
Mr. Fu Haishu	130	35	165
	<u>1,585</u>	<u>35</u>	<u>1,620</u>
Year ended 31 December 2018:			
Executive directors:			
Mr. Song Jianliang	1,815	—	1,815
Mr. Yu Kai	569	48	617
Mr. Fu Haishu	100	27	127
	<u>2,484</u>	<u>75</u>	<u>2,559</u>
Year ended 31 December 2019:			
Executive directors:			
Mr. Song Jianliang	1,837	—	1,837
Mr. Yu Kai	601	47	648
Mr. Fu Haishu	180	23	203
	<u>2,618</u>	<u>70</u>	<u>2,688</u>
Six months ended 30 June 2019 (unaudited):			
Executive directors:			
Mr. Song Jianliang	1,182	—	1,182
Mr. Yu Kai	301	38	339
Mr. Fu Haishu	70	12	82
	<u>1,553</u>	<u>50</u>	<u>1,603</u>
Six months ended 30 June 2020:			
Executive directors:			
Mr. Song Jianliang	739	—	739
Mr. Yu Kai	263	24	287
Mr. Fu Haishu	102	8	110
	<u>1,104</u>	<u>32</u>	<u>1,136</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period and six months ended 30 June 2019.

**9 FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees of the Group included 1, 2, 1, 2 and 1 directors respectively for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020, details of whose remuneration are set out in note 8(b) above.

Details of the remuneration of the remaining highest paid employees who are neither a director nor chief executive of the Group for each of the Track Record Period and six months ended 30 June 2019 are as follows:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries, allowances and benefits in kind	3,429	1,781	3,569	1,266	1,365
Pension scheme contributions	96	—	—	—	—
	<u>3,525</u>	<u>1,781</u>	<u>3,569</u>	<u>1,266</u>	<u>1,365</u>

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			Six months ended	
	Year ended 31 December			30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
Nil to HKD1,000,000	2	3	2	3	4
HKD1,000,001 to HKD2,000,000	<u>2</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>—</u>
	<u>4</u>	<u>3</u>	<u>4</u>	<u>3</u>	<u>4</u>

**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.

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax	5,179	8,983	10,588	3,961	670
Deferred tax (note 16)	<u>748</u>	<u>(1,018)</u>	<u>(4,477)</u>	<u>(1,379)</u>	<u>(1,245)</u>
Total tax expenses for the year/period	<u>5,927</u>	<u>7,965</u>	<u>6,111</u>	<u>2,582</u>	<u>(575)</u>



The majority of the Company's subsidiaries are domiciled in Mainland China. A reconciliation of the tax expenses applicable to profit before tax at the statutory rate for Mainland China to the tax expenses at the Group's effective tax rate is as follows:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before tax	<u>23,332</u>	<u>26,383</u>	<u>16,388</u>	<u>4,790</u>	<u>(12,352)</u>
Tax at the PRC statutory income tax rate*	5,833	6,596	4,097	1,198	(3,088)
Effect of different tax rates of subsidiaries**	—	1	15	(13)	(25)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	—	865	464	464	—
Expenses not deductible for tax	94	502	103	32	19
Tax losses not recognised	<u>—</u>	<u>1</u>	<u>1,432</u>	<u>901</u>	<u>2,519</u>
	<u>5,927</u>	<u>7,965</u>	<u>6,111</u>	<u>2,582</u>	<u>(575)</u>

\* The provision for current income tax in Mainland China 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 and No. 2 announcement of State Taxation Administration 2019 Ningbo Zhuerli enjoys preferential tax rates of 10% and 5% as a small micro-enterprise for the year ended 31 December 2019 and for six months ended 30 June 2020.

## 11 DIVIDENDS

The dividends declared by the Company's subsidiary to its then shareholders during the Track Record Period and six months ended 30 June 2019 are as follows:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Dividends	<u>—</u>	<u>19,420</u>	<u>11,961</u>	<u>11,961</u>	<u>—</u>

No dividend was paid or declared by the Company for the year ended 31 December 2017. The dividend for the year ended 31 December 2018 was approved by the then shareholders of the subsidiaries pursuant to shareholder resolutions passed on 1 and 31 August 2018 respectively.

The dividend for the first quarter of 2019 was approved by the then shareholders of the subsidiaries pursuant to shareholder resolutions passed in April 2019.

No dividend was paid or declared by the Company for six months ended 30 June 2020.

## 12 EARNINGS PER SHARE FOR PROFIT/(LOSS) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the earning attributable to owners of the Group by the weighted average number of ordinary shares issued during the Track Record Period and six months ended 30 June 2019. In determining the weighted average number of shares in issue during the Track Record Period and six months ended 30 June 2019, 59,334 shares of the Group, which resulted from the issue and allotment of 59,334 shares by the Group in connection with the Reorganization as described in Note 1.3, had been treated as if such shares were issued on 1 January 2017:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June 2019	2020
				(unaudited)	
Profit/(loss) attributable to owners of the parent ( <i>RMB'000</i> )	17,379	17,855	9,897	2,198	(12,000)
Weighted average number of ordinary shares in issue	<u>59,334</u>	<u>59,334</u>	<u>59,334</u>	<u>59,334</u>	<u>59,334</u>
Earnings/(loss) per share for profit attributable to owners of the Company for the year/period ( <i>RMB'000</i> )	<u>0.29</u>	<u>0.30</u>	<u>0.17</u>	<u>0.04</u>	<u>(0.20)</u>

## 13 PROPERTY, PLANT AND EQUIPMENT

		Machinery equipment	Office and other equipment	Leasehold improvements	Motor vehicles	Total
	Note	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2017:						
Cost		9,450	5,046	5,911	2,116	22,523
Accumulated depreciation		<u>(3,834)</u>	<u>(2,932)</u>	<u>(1,565)</u>	<u>(1,523)</u>	<u>(9,854)</u>
Net carrying amount		<u>5,616</u>	<u>2,114</u>	<u>4,346</u>	<u>593</u>	<u>12,669</u>
At 1 January 2017,						
net of accumulated depreciation		5,616	2,114	4,346	593	12,669
Additions		2,218	361	—	—	2,579
Acquisition of a subsidiary	32	—	91	—	463	554
Disposals		(76)	(13)	—	—	(89)
Depreciation provided during the year		<u>(1,755)</u>	<u>(1,052)</u>	<u>(1,307)</u>	<u>(181)</u>	<u>(4,295)</u>
At 31 December 2017, net of accumulated depreciation		<u>6,003</u>	<u>1,501</u>	<u>3,039</u>	<u>875</u>	<u>11,418</u>
At 31 December 2017:						
Cost		11,446	5,525	5,911	2,678	25,560
Accumulated depreciation		<u>(5,443)</u>	<u>(4,024)</u>	<u>(2,872)</u>	<u>(1,803)</u>	<u>(14,142)</u>
Net carrying amount		<u>6,003</u>	<u>1,501</u>	<u>3,039</u>	<u>875</u>	<u>11,418</u>

	<b>Machinery equipment</b> <i>RMB'000</i>	<b>Office and other equipment</b> <i>RMB'000</i>	<b>Leasehold improvements</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2018:						
Cost	11,446	5,525	5,911	2,678	—	25,560
Accumulated depreciation	(5,443)	(4,024)	(2,872)	(1,803)	—	(14,142)
Net carrying amount	<u>6,003</u>	<u>1,501</u>	<u>3,039</u>	<u>875</u>	<u>—</u>	<u>11,418</u>
At 1 January 2018, net of accumulated depreciation	6,003	1,501	3,039	875	—	11,418
Additions	8,765	1,040	2,092	—	672	12,569
Disposals	(10)	(6)	—	—	—	(16)
Depreciation provided during the year	(2,524)	(930)	(1,319)	(135)	—	(4,908)
At 31 December 2018, net of accumulated depreciation	<u>12,234</u>	<u>1,605</u>	<u>3,812</u>	<u>740</u>	<u>672</u>	<u>19,063</u>
At 31 December 2018:						
Cost	20,093	6,475	8,003	2,678	672	37,921
Accumulated depreciation	(7,859)	(4,870)	(4,191)	(1,938)	—	(18,858)
Net carrying amount	<u>12,234</u>	<u>1,605</u>	<u>3,812</u>	<u>740</u>	<u>672</u>	<u>19,063</u>
	<b>Machinery equipment</b> <i>RMB'000</i>	<b>Office and other equipment</b> <i>RMB'000</i>	<b>Leasehold improvements</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2019:						
Cost	20,093	6,475	8,003	2,678	672	37,921
Accumulated depreciation	(7,859)	(4,870)	(4,191)	(1,938)	—	(18,858)
Net carrying amount	<u>12,234</u>	<u>1,605</u>	<u>3,812</u>	<u>740</u>	<u>672</u>	<u>19,063</u>
At 1 January 2019, net of accumulated depreciation	12,234	1,605	3,812	740	672	19,063
Additions	6,651	335	3,453	633	—	11,072
Disposals	(205)	(7)	—	(20)	—	(232)
Transfers	—	—	672	—	(672)	—
Depreciation provided during the year	(3,170)	(576)	(1,899)	(139)	—	(5,784)
At 31 December 2019, net of accumulated depreciation	<u>15,510</u>	<u>1,357</u>	<u>6,038</u>	<u>1,214</u>	<u>—</u>	<u>24,119</u>
At 31 December 2019:						
Cost	26,204	6,744	12,128	2,908	—	47,984
Accumulated depreciation	(10,694)	(5,387)	(6,090)	(1,694)	—	(23,865)
Net carrying amount	<u>15,510</u>	<u>1,357</u>	<u>6,038</u>	<u>1,214</u>	<u>—</u>	<u>24,119</u>

	<b>Machinery equipment</b> <i>RMB'000</i>	<b>Office and other equipment</b> <i>RMB'000</i>	<b>Leasehold improvements</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2020:					
Cost	26,204	6,744	12,128	2,908	47,984
Accumulated depreciation	(10,694)	(5,387)	(6,090)	(1,694)	(23,865)
Net carrying amount	<u>15,510</u>	<u>1,357</u>	<u>6,038</u>	<u>1,214</u>	<u>24,119</u>
At 1 January 2020, net of accumulated depreciation	15,510	1,357	6,038	1,214	24,119
Additions	1,519	84	180	—	1,783
Disposals	(3)	(2)	—	—	(5)
Depreciation provided during the period	(2,075)	(273)	(1,164)	(128)	(3,640)
Impairment	—	(11)	—	(43)	(54)
At 30 June 2020, net of accumulated depreciation	<u>14,951</u>	<u>1,155</u>	<u>5,054</u>	<u>1,043</u>	<u>22,203</u>
At 30 June 2020:					
Cost	27,674	6,779	12,308	2,908	49,669
Accumulated depreciation	(12,723)	(5,613)	(7,254)	(1,822)	(27,412)
Impairment	—	(11)	—	(43)	(54)
Net carrying amount	<u>14,951</u>	<u>1,155</u>	<u>5,054</u>	<u>1,043</u>	<u>22,203</u>

In the opinion of the Group's directors, an impairment of property, plant and equipment amounting to RMB54,000 was recognised in the six months ended 30 June 2020 due to the shrinking consulting business of Guangzhou Yingjieshi.

## 14 INTANGIBLE ASSETS

	Software RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017:			
Cost	144	21	165
Accumulated amortisation	(35)	—	(35)
Net carrying amount	109	21	130
Cost at 1 January 2017, net of accumulated amortisation	109	21	130
Additions	26	—	26
Amortisation provided during the year	(29)	(2)	(31)
At 31 December 2017	106	19	125
At 31 December 2017 and at 1 January 2018:			
Cost	171	25	196
Accumulated amortisation	(65)	(6)	(71)
Net carrying amount	106	19	125
Cost at 1 January 2018, net of accumulated amortisation	106	19	125
Additions	270	—	270
Amortisation provided during the year	(53)	(2)	(55)
At 31 December 2018	323	17	340
At 31 December 2018 and at 1 January 2019:			
Cost	441	25	466
Accumulated amortisation	(118)	(8)	(126)
Net carrying amount	323	17	340
Cost at 1 January 2019, net of accumulated amortisation	323	17	340
Additions	65	63	128
Amortisation provided during the year	(59)	(8)	(67)
At 31 December 2019	329	72	401
At 31 December 2019 and at 1 January 2020:			
Cost	505	87	592
Accumulated amortisation	(176)	(15)	(191)
Net carrying amount	329	72	401
Cost at 1 January 2020, net of accumulated amortisation	329	72	401
Additions	91	—	91
Amortisation provided during the period	(31)	(4)	(35)
At 30 June 2020	389	68	457
At 30 June 2020:			
Cost	596	87	683
Accumulated amortisation	(207)	(19)	(226)
Net carrying amount	389	68	457

## 15 GOODWILL

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	20,639	20,639	20,639	20,639
Accumulated impairment	—	—	—	(429)
Net carrying amount	<u>20,639</u>	<u>20,639</u>	<u>20,639</u>	<u>20,210</u>

**Impairment testing of goodwill**

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Aesthetic medical services CGU; and
- Consulting services CGU.

***Aesthetic medical services CGU***

The recoverable amount of the aesthetic medical services 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 rates applied to the cash flow projections are 14.22%, 15.27%, 15.35% and 15.22% for each of the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020, respectively. The growth rate used to extrapolate the cash flows of the aesthetic medical services CGU beyond the five-year period is 3.00%, which is also an estimate of the long-term rate of inflation.

***Consulting services CGU***

The recoverable amount of the consulting services 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 rates applied to the cash flow projections are 15.31%, 13.40%, 14.57% and 14.79% for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020, respectively. The growth rate used to extrapolate the cash flows of the consulting services CGU beyond the five-year period is 3.00%, which is also an estimate of the long-term rate of inflation.

The carrying amounts of goodwill allocated to each of the CGUs are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Aesthetic medical services	20,210	20,210	20,210	20,210
Consulting services	<u>429</u>	<u>429</u>	<u>429</u>	<u>—</u>

Assumptions were used in the value in use calculation of the aesthetic medical services and consulting services CGUs for the Track Record Period and six months ended 30 June 2019. 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 rate	—	The basis used to determine the value assigned to the long-term growth rate is the forecast price indices during the budget year from where the main services are located.

The values assigned to the key assumptions on market development of the aesthetic medical service and consulting service industry, discount rates and consumer price index are based on the long-term growth rates in the industry and the Group's historical experience.

#### *Sensitivity to changes in key assumptions*

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the recoverable amount of the aesthetic medical services cash-generating unit exceeds its carrying amount by RMB119,186,000, RMB91,475,000, RMB99,130,000 and RMB85,930,000, respectively. At 31 December 2017, 2018 and 2019, the recoverable amount of the consulting services cash-generating unit exceeds its carrying amount by RMB295,000, RMB404,000 and RMB257,000, respectively. At 30 June 2020, the recoverable amount of the consulting services cash-generating unit lower than its carrying amount by RMB483,000.

The following table sets forth the impact of reasonable possible changes in each of the key assumptions, with all other variables held constant, of goodwill impairment testing of the Group as of the dates indicated.

Possible changes of key assumptions	Recoverable amount of the cash generating unit exceeds its carrying amount by			
	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Aesthetic medical services cash-generating units				
Pre-tax discount rate increase by 1%	107,296	83,065	89,890	76,950
Long-term growth rate decrease by 1%	112,406	86,505	93,060	79,600
Consulting services cash-generating units				
Pre-tax discount rate increase by 1%	131	171	31	N/A
Long-term growth rate decrease by 1%	212	242	189	N/A

In the opinion of the Group's directors, the goodwill of consulting services CGU was fully impaired as at 30 June 2020. The impairments of goodwill and property, plant and equipment generated by consulting services of RMB429,000 and RMB54,000 was recognised in the six months ended 30 June 2020 due to the shrinking consulting business of Guangzhou Yingjieshi. The recoverable amount of the CGU is RMB566,000 and the carrying amount of the goodwill and related assets of the CGU is RMB1,049,000.

For aesthetic medical services CGU, if the discount rate rose to 45.06% as at 30 June 2020 (2019: 61%, 2018: 61.44%, 2017: 83.67%), with other assumptions remaining unchanged, the recoverable amount of the CGU would be decreased to the carrying amount of goodwill and other related long-term assets. Except for this, any reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment as at 31 December 2017, 2018 and 2019 and 30 June 2020.



## 16 DEFERRED TAX

## Deferred tax assets

The movements in deferred tax assets during the Track Record Period are as follows:

	Notes	Advertising expenses for offsetting against future profit RMB'000	Accrued payroll and others RMB'000	Loss available for offsetting against future profit RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Fair value adjustment on equity investment RMB'000	Leasing RMB'000	Bad debt RMB'000	Provision for impairment of property, plant and equipment RMB'000	Refund liabilities RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2017		1,697	483	971	—	—	314	44	—	413	3,922
Deferred tax arising from acquisition of a subsidiary	32	—	33	—	17	—	—	—	—	—	50
Deferred tax credited/ (charged) to profit or loss during the year	10	(146)	(15)	(758)	—	—	80	96	—	(20)	(763)
Gross deferred tax assets at 31 December 2017 and 1 January 2018		1,551	501	213	17	—	394	140	—	393	3,209
Deferred tax credited/ (charged) to profit or loss during the year	10	373	401	323	(4)	—	(14)	(76)	—	864	1,867
Gross deferred tax assets at 31 December 2018 and 1 January 2019		1,924	902	536	13	—	380	64	—	1,257	5,076
	Notes	Advertising expenses for offsetting against future profit RMB'000	Accrued payroll and others RMB'000	Loss available for offsetting against future profit RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Fair value adjustment on equity investment RMB'000	Leasing RMB'000	Bad debt RMB'000	Provision for impairment of property, plant and equipment RMB'000	Refund liabilities RMB'000	Total RMB'000
Gross deferred tax assets at 31 December 2018 and 1 January 2019		1,924	902	536	13	—	380	64	—	1,257	5,076
Deferred tax credited/ (charged) to profit or loss during the year	10	220	288	2,861	(3)	—	(43)	4	—	266	3,593
Gross deferred tax assets at 31 December 2019 and 1 January 2020		2,144	1,190	3,397	10	—	337	68	—	1,523	8,669
Deferred tax credited/ (charged) to the statement of profit or loss during the period	10	(163)	341	826	(2)	23	177	54	14	25	1,295
Gross deferred tax assets at 30 June 2020		1,981	1,531	4,223	8	23	514	122	14	1,548	9,964

## Deferred tax liabilities

		Fair value adjustments arising from acquisition of subsidiaries <i>RMB'000</i>	With- holding taxes <i>RMB'000</i>	Fair value adjustment on other financial assets <i>RMB'000</i>	Total <i>RMB'000</i>
	<i>Note</i>				
Gross deferred tax liabilities at 1 January 2017		75	—	—	75
Deferred tax credited to profit or loss during the year	10	<u>(15)</u>	<u>—</u>	<u>—</u>	<u>(15)</u>
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018		60	—	—	60
Deferred tax (credited)/charged to profit or loss during the year	10	<u>(16)</u>	<u>865</u>	<u>—</u>	<u>849</u>
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019		44	865	—	909
Deferred tax (credited)/charged to profit or loss during the year	10	<u>(28)</u>	<u>(865)</u>	<u>9</u>	<u>(884)</u>
Gross deferred tax liabilities at 31 December 2019 and 1 January 2020		16	—	9	25
Deferred tax (credited)/charged to profit or loss during the period	10	<u>(1)</u>	<u>—</u>	<u>28</u>	<u>27</u>
Gross deferred tax liabilities at 30 June 2020		<u>15</u>	<u>—</u>	<u>37</u>	<u>52</u>

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 Mainland China. 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 Mainland China 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 Mainland China.

**17 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity investment, at fair value Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd.	—	—	6,000	5,908

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

In December 2019, the Group purchased a 10% equity interest in Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd. at market value of RMB6,000,000. The fair value measurement is categorised within level 3 of the fair value hierarchy.

**18 SUPPLIES**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Pharmaceuticals	618	1,114	647	1,269
Medical consumables	3,559	4,973	7,247	5,267
	4,177	6,087	7,894	6,536

In the opinion of the directors, no impairment provision was needed as at the end of each of the Track Record Period.

**19 TRADE RECEIVABLES**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	4,559	5,278	8,437	5,512
Impairment	(178)	(181)	(116)	(94)
	4,381	5,097	8,321	5,418

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:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	3,862	4,167	7,536	5,072
4 to 6 months	447	586	724	246
7 to 12 months	72	344	61	94
1 to 2 years	—	—	—	6
	<u>4,381</u>	<u>5,097</u>	<u>8,321</u>	<u>5,418</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	158	178	181	116
Impairment losses, net	20	3	(15)	(22)
Amount written off as uncollectible	—	—	(50)	—
At end of year/period	<u>178</u>	<u>181</u>	<u>116</u>	<u>94</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9 *Financial Instrument*, which permits the use of the lifetime expected loss provision for all trade receivables without a significant financing component. The expected credit losses (“ECLs”) are assessed collectively based on credit risk characteristics and the Group’s historical credit loss experience, adjusted for factors of general economic conditions and the time value of money. The measurement of ECLs is the product of probability of default, loss given default, exposure at default, the forward-looking factor and the discount factor. The probability of default and loss given default are estimated based on historical data and industry benchmarks. The forward-looking factor is derived from an assessment of both current general economic conditions and forecasts of future conditions. The estimation of ECLs reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The expected loss rate were 3.9%, 3.4%, 1.4% and 1.7% for trade receivables in aggregation as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. The expected loss rate is reviewed, and adjusted if appropriate, at the end of each of the Track Record Period. The credit loss rate remained the same during the Track Record Period as the business and customer base of the Group remained stable and there were no significant fluctuations on the historical credit loss incurred.

**20 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS**

	<b>As at 31 December</b>			<b>As at</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2020</b>
				<i>RMB'000</i>
Prepayments for supplies	1,408	1,071	1,736	1,534
Prepayments for services	1,908	5,801	9,275	6,108
Prepaid expense	1,499	1,578	937	4,581
Deposits	1,341	1,575	3,382	6,411
Others	<u>2,485</u>	<u>786</u>	<u>587</u>	<u>1,117</u>
	8,641	10,811	15,917	19,751
Impairment	<u>(384)</u>	<u>(76)</u>	<u>(155)</u>	<u>(395)</u>
	<u>8,257</u>	<u>10,735</u>	<u>15,762</u>	<u>19,356</u>

Deposits and others mainly represent rental deposits, deposits with suppliers and petty cash to employees, none of which is either past due or impaired. The debtors were diversified and remained stable. There was no recent history of default or negative forward-looking information.

**21 LOANS TO DIRECTORS**

Loans to directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

**30 June 2020**

<b>Name</b>	<b>At</b> <b>30 June</b> <b>2020</b> <i>RMB'000</i>	<b>Maximum amount</b> <b>outstanding</b> <b>during the period</b> <i>RMB'000</i>	<b>At</b> <b>1 January</b> <b>2020</b> <i>RMB'000</i>	<b>Security held</b>
Ruide Consultation Limited (controlled by Mr. Fu Haishu)	<u>—</u>	865	<u>865</u>	None
	<u>—</u>		<u>865</u>	

**31 December 2019**

<b>Name</b>	<b>At</b> <b>31 December</b> <b>2019</b> <i>RMB'000</i>	<b>Maximum amount</b> <b>outstanding</b> <b>during the period</b> <i>RMB'000</i>	<b>At</b> <b>1 January</b> <b>2019</b> <i>RMB'000</i>	<b>Security held</b>
Ruide Consultation Limited (controlled by Mr. Fu Haishu)	<u>865</u>	865	<u>325</u>	None
	<u>865</u>		<u>325</u>	

## 31 December 2018

Name	At 31 December 2018 RMB'000	Maximum amount outstanding during the year RMB'000	At 1 January 2018 RMB'000	Security held
Mr. Fu Haishu	—	10,653	5,856	None
Ruide Consultation Limited (controlled by Mr. Fu Haishu)	325	325	—	None
Ningbo Ruixuan (controlled by Mr. Fu Haishu)	—	300	300	None
	<u>325</u>		<u>6,156</u>	

## 31 December 2017

Name	At 31 December 2017 RMB'000	Maximum amount outstanding during the year RMB'000	At 1 January 2017 RMB'000	Security held
Mr. Fu Haishu	5,856	5,856	—	None
Ningbo Ruixuan (controlled by Mr. Fu Haishu)	300	300	—	None
	<u>6,156</u>		<u>—</u>	

The loans to directors are non-trade in nature and settled in 2020.

## 22 DEBT INVESTMENTS AT AMORTISED COST

	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	2019 RMB'000	As at 30 June 2020 RMB'000
Debt investments at amortised cost	<u>—</u>	<u>—</u>	<u>11,055</u>	<u>11,110</u>

As at 31 December 2019, the principal-protected debt investments at amortised cost have been pledged to secure a bank's facility granted by Bank of Jiangsu amounting to RMB10,000,000, of which RMB4,948,000 was drawn down.

As at 30 June 2020, the principal-protected debt investments at amortised cost have been pledged to secure a bank's facility granted by Bank of Jiangsu amounting to RMB10,000,000, of which RMB8,005,000 was drawn down.

## 23 OTHER CURRENT FINANCIAL ASSETS

	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	2019 RMB'000	As at 30 June 2020 RMB'000
Financial assets at fair value through profit or loss	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,375</u>

The investments measured at fair value through profit or loss were non-principal-protected wealth management products issued by Bank of Huaxia, with expected yield rates ranging from 1.6% to 5% per annum as at 30 June 2020. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

## 24 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Cash and bank balances	9,418	20,355	49,410	37,999
Less: Pledged deposits				
— pledged for bank facilities	—	—	—	10,500
	<u>9,418</u>	<u>20,355</u>	<u>49,410</u>	<u>27,499</u>
Denominated in RMB	9,418	20,345	49,032	37,775
Denominated in HK Dollar				
("HKD")	—	9	258	120
Denominated in US Dollar				
("USD")	—	1	120	104
Denominated in RMB	<u>9,418</u>	<u>20,355</u>	<u>49,410</u>	<u>37,999</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, 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 will due in June 2021, 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.

## 25 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:

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within 90 days	3,555	3,560	5,022	5,624
91 to 180 days	1,393	476	877	938
181 to 365 days	491	741	730	1,683
Over 365 days	<u>514</u>	<u>1,686</u>	<u>1,846</u>	<u>2,078</u>
	<u>5,953</u>	<u>6,463</u>	<u>8,475</u>	<u>10,323</u>

Trade payables are non-interest-bearing and are normally settled on 90-day terms.



**26 OTHER PAYABLES AND ACCRUALS**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	19,661	18,957	4,789	3,437
Payroll payable	4,012	7,075	9,079	8,741
Accruals	5,620	2,398	60	169
Tax liabilities (other than income tax)	248	274	677	257
Advances received	4,954	4,291	5,263	5,160
	<u>34,495</u>	<u>32,995</u>	<u>19,868</u>	<u>17,764</u>

Other payables are non-interest-bearing and repayable on demand.

**27 REFUND LIABILITIES**

	Refund Liabilities RMB'000
At 1 January 2017	1,651
Additions	3,786
Amounts utilised during the year	<u>(3,868)</u>
At 31 December 2017 and 1 January 2018	1,569
Additions	12,626
Amounts utilised during the year	<u>(9,168)</u>
At 31 December 2018 and 1 January 2019	5,027
Additions	12,843
Amounts utilised during the year	<u>(11,778)</u>
At 31 December 2019 and 1 January 2020	6,092
Additions	5,233
Amounts utilised during the period	<u>(5,134)</u>
At 30 June 2020	<u>6,191</u>

**28 LEASES****Group as a lessee**

The Group has lease contracts for working space used in its operations. Leases of working space generally have lease terms between 2 and 10 years. The Group's obligations under its leases are secured by the lessor's title to the leased asset. There are several lease contracts that include extension and termination options, which are further discussed below.

**(a) Right-of-use assets**

Set out below are the carrying amounts of the right-of-use assets recognised and the movements of those right-of-use assets during the Track Record Period:

	<b>Working spaces RMB'000</b>
As at 1 January 2017	16,935
Additions	100
Depreciation charge	<u>(3,182)</u>
As at 31 December 2017	13,853
Additions	17,133
Depreciation charge	<u>(3,585)</u>
As at 31 December 2018	27,401
Additions	4,542
Depreciation charge	(5,902)
Derecognition	<u>(920)</u>
As at 31 December 2019	25,121
Additions	400
Depreciation charge	<u>(2,920)</u>
As at 30 June 2020	<u><u>22,601</u></u>

**(b) Lease liabilities**

The carrying amounts of lease liabilities and the movements during the Track Record Period are as follows:

	<b>Year ended 31 December</b>			<b>As at 30 June 2020</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at beginning of year	18,027	15,261	27,167	26,384
Additions	100	17,133	4,542	400
Interest during the year/ period	1,361	1,624	2,302	1,020
Payments	(4,227)	(6,851)	(6,580)	(2,062)
Payments waived	—	—	—	(1,823)
Derecognition	<u>—</u>	<u>—</u>	<u>(1,047)</u>	<u>—</u>
Carrying amount at end of year/period	<u><u>15,261</u></u>	<u><u>27,167</u></u>	<u><u>26,384</u></u>	<u><u>23,919</u></u>
Current	3,749	6,240	6,619	6,747
Non-current	11,512	20,927	19,765	17,172

(c) The following are the amounts recognised in profit or loss:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Depreciation charge of right-of-use asset	3,182	3,585	5,902	2,998	2,920
Interest charge on lease liabilities	1,361	1,624	2,302	1,182	1,020
Expense relating to short-term leases	2,089	1,902	66	47	20
Gain on the derecognition of right-of-use assets	—	—	(127)	(27)	—
Total amount recognised in profit or loss	<u>6,632</u>	<u>7,111</u>	<u>8,143</u>	<u>4,200</u>	<u>3,960</u>

The Group had total cash outflows for leases of RMB2,738,000 and RMB2,062,000 in six months ended 30 June 2019 and 2020, RMB6,580,000 in 2019, RMB6,851,000 in 2018 and RMB4,227,000 in 2017. The Group also had non-cash additions to right-of-use asset and lease liabilities of RMB3,221,000 and RMB400,000 during six months ended 30 June 2019 and 2020, RMB4,542,000 in 2019, RMB17,133,000 in 2018 and RMB100,000 in 2017.

**(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 30 June 2020.

**29 INTEREST-BEARING BANK AND OTHER BORROWINGS**

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	5.00%	2020	4,948
Bank loans — unsecured	4.20%	2020	<u>2,000</u>
As at 31 December 2019			<u>6,948</u>

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	5.00%	2020	8,005
Bank loans — secured	LPR + 40BP (4.25%)	2021	5,000
Bank loans — unsecured	4.20%	2020	<u>2,000</u>
As at 30 June 2020			<u>15,005</u>

The Group's secured bank loans as at 31 December 2019 are secured by the Group's debt investments at amortised cost, amounting to RMB11,055,000.

The Group's secured bank loans as at 30 June 2020 are secured by the Group's debt investments at amortised cost amounting to RMB11,110,000, and the pledge of certain of the Group's pledge deposits amounting to RMB10,500,000.

### 30 SHARE CAPITAL

	Number of shares	Nominal value USD	Nominal value RMB
<b>Authorised:</b>			
At 31 December 2017	—	—	—
Authorisation	<u>50,000</u>	<u>50,000</u>	<u>325,000</u>
At 31 December 2018	50,000	50,000	325,000
Subdivision	<u>4,950,000</u>	<u>—</u>	<u>—</u>
At 31 December 2019 and 30 June 2020	<u>5,000,000</u>	<u>50,000</u>	<u>325,000</u>
<b>Issued:</b>			
At 31 December 2017	—	—	—
Issue of shares	<u>50,000</u>	<u>50,000</u>	<u>325,000</u>
At 31 December 2018	50,000	50,000	325,000
Subdivision of shares	<u>4,950,000</u>	<u>—</u>	<u>—</u>
Repurchase and cancellation of shares	<u>(4,956,500)</u>	<u>(49,565)</u>	<u>(322,173)</u>
Allotment of shares	<u>15,834</u>	<u>158</u>	<u>1,059</u>
At 31 December 2019 and 30 June 2020	<u>59,334</u>	<u>593</u>	<u>3,886</u>

- i. The Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on 2 January 2018 with authorised share capital of USD50,000 divided into 50,000 shares at a par value of USD1.00 each. On the same date, 50,000 shares were issued to Ruide Consultation Limited.
- ii. On 24 January 2019, 50,000 issued shares with a par value of USD1.00 each in the capital of the Company were subdivided into USD0.01 each, such that immediately following the share subdivision, the authorised share capital of the Company became USD50,000 divided into 5,000,000 shares with a par value of USD0.01 each. On the same date, 4,956,500 ordinary shares with a par value of USD0.01 each were repurchased by the Company from Ruide Consultation Limited at a purchase price of USD49,565. Upon the completion of such share repurchase, the repurchased shares were cancelled. Thereafter, Ruide Consultation Limited held 43,500 shares which represented the entire issued share capital of the Company.
- iii. On 24 January 2019, the Company allotted 3,500 ordinary shares with a par value of USD0.01 each to Beauty Milkway for a consideration of RMB1,400,000, and 3,000 ordinary shares with a par value of USD0.01 each to Youxin Management for a consideration of RMB1,200,000. The consideration amount exceeding the nominal amount of the shares issued was recorded in the share premium of the Company.

On 29 April 2019, Ruide BVI transferred 2,967, 1,125 and 974 shares in our Company to Success Concept, Mr. Cheng Lei Jack and Beauty Milkway for considerations of RMB8,575,000, RMB10,125,000 and RMB8,763,600, respectively.

On 30 April 2019, the Company allotted 3,889 ordinary shares with a par value of USD0.01 each to Huamei Medical Investment Fund Limited at a consideration of RMB35,000,000, 3,889 ordinary shares with a par value of USD0.01 each to Shanghai Donghua Health Management Partnership (Limited Partnership) (上海東燿健康管理合夥企業(有限合夥)) at a consideration of RMB35,000,000, and 1,556 ordinary shares with a par value of USD0.01 each to Shanghai Paibo Management Consulting Partnership (Limited Partnership) (上海湃昂管理諮詢合夥企業(有限合夥)) at a consideration of RMB14,000,000. Pursuant to the agreement with Youxin Management, the Company paid RMB6,745,000 as commission at 8% for the financing. The net proceeds of RMB78,664,000 after deducting the commission exceeding the nominal amount of the shares issued were recorded in the share premium of the Company.

### 31 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page I-8 of the Historical Financial Information.

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

The amounts of the Company's reserves as at 31 December 2019 and 30 June 2020 are RMB76,022,000 and RMB67,864,000, respectively, which were generated by the shareholder capital injection, the details of which are presented in the consolidated statement of changes in equity on page I-8 of the Historical Financial Information.

### 32 BUSINESS COMBINATION

#### Acquisition of Guangzhou Yingjieshi

On 10 June 2015, Guangzhou Yingjieshi was established by Zhang Ruijie together with other investors and it is engaged in providing consulting services. On 19 December 2017, the Group acquired the entire interest of Guangzhou Yingjieshi for a consideration of RMB2,500,000.

The fair values of the identifiable assets and liabilities of Guangzhou Yingjieshi upon acquisition were as follows:

	<b>Fair value recognised on acquisition RMB'000</b>
Cash and cash equivalents	2,275
Property, plant and equipment	554
Trade receivables	1,710
Prepayments, other receivables and other assets	712
Deferred tax assets	50
Contract liabilities	(330)
Other payables and accruals	<u>(2,900)</u>
Total identifiable net assets at fair value	<u><u>2,071</u></u>
Goodwill on acquisition	<u>429</u>
Satisfied by cash	<u>2,500</u>
	<u><u>2,500</u></u>

An analysis of the cash flows in respect of the acquisition is as follows:

	<i>RMB'000</i>
Cash consideration*	—
Cash and cash equivalents acquired	<u>(2,275)</u>
Net inflow of cash and cash equivalents included in cash flows from investing activities	<u><u>(2,275)</u></u>

\* The cash consideration was paid by Mr. Fu Haishu.

Since the acquisition, Guangzhou Yingjieshi had no contribution to the Group's revenue and profit for the year ended 31 December 2017.

Had combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year ended 31 December 2017 would have been RMB119,897,000 and RMB19,478,000, respectively.

### 33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (a) Major non-cash transactions

On 25 May 2018, the Group entered into a loan agreement pursuant to which Raily Beauty obtained borrowings in the amount of RMB33,330,000 with an interest rate of 10% per annum from Independent Third Party. On 30 December 2018, the Group entered into an agreement to transfer all the loans and interests to Mr. Fu Haishu.

## (b) Changes in liabilities arising from financing activities

## At 31 December 2017

	Notes	Lease liabilities (current and non-current) RMB'000	Due (from)/to related companies RMB'000	Due (from)/to controlling shareholder RMB'000	Total RMB'000
At 1 January 2017		18,027	—	1,430	19,457
Changes from financing cash flows:					
Payment of lease liabilities	28(b)	(4,227)	—	—	(4,227)
Change from investing cash flows:					
Cash paid to the controlling shareholder		—	—	(15,041)	(15,041)
Changes from non-cash activities:					
Addition of leases	28(a)	100	—	—	100
Interest accrued	28(b)	1,361	—	—	1,361
Acquisition of a 78% equity interest of Wuhu Raily from the controlling shareholder	36(b)(i)	—	—	780	780
Acquisition of a 100% equity interest of Ruian Raily from the controlling shareholder	36(b)(i)	—	—	2,000	2,000
Acquisition of a 45% equity interest of Hangzhou Raily from the controlling shareholder	36(b)(i)	—	—	2,250	2,250
Loans from the controlling shareholder for the acquisition of a 100% equity interest of Guangzhou Yingjieshi		—	—	2,500	2,500
Transfer of a 30% equity interest in Wuhu Raily to Ningbo Ruixuan	36(b)(i)	—	(300)	—	(300)
From acquisition of subsidiary		—	—	225	225
At 31 December 2017 and 1 January 2018		<u>15,261</u>	<u>(300)</u>	<u>(5,856)</u>	<u>9,105</u>

## At 31 December 2018

	Notes	Loan from independent third party and related interest payables RMB'000	Lease liabilities (current and non-current) RMB'000	Dividends payables RMB'000	Due (from)/to related companies RMB'000	Due (from)/to controlling shareholder RMB'000	Total RMB'000
At 1 January 2018		—	15,261	—	(300)	(5,856)	9,105
Changes from financing cash flows:							
Payment of lease liabilities		—	(6,851)	—	—	—	(6,851)
Loans received from independent third party	33(a)	33,330	—	—	—	—	33,330
Dividends paid		—	—	(12,600)	—	—	(12,600)
Change from investing cash flows:							
Cash paid to the controlling shareholder		—	—	—	—	(21,127)	(21,127)
Changes from non-cash activities:							
Capital receivable		—	—	—	(325)	—	(325)
Dividends declared		—	—	12,600	5,980	840	19,420
Addition of leases		—	17,133	—	—	—	17,133
Interest accrued	28(a)	1,667	1,624	—	—	—	3,291
Net off with loan from independent third party		(34,997)	—	—	—	34,997	—
Transfer of the equity interest of Raily Beauty to Raily HK	36(b)(v)	—	—	—	(500)	—	(500)
Transfer of the equity interest of Hangzhou Raily to Ningbo Ruixuan	36(b)(vi)	—	—	—	500	—	500
At 31 December 2018		<u>—</u>	<u>27,167</u>	<u>—</u>	<u>5,355</u>	<u>8,854</u>	<u>41,376</u>



## At 31 December 2019

<i>Note</i>	<b>Bank and other loans RMB'000</b>	<b>Lease liabilities (current and non-current) RMB'000</b>	<b>Due (from)/ to related companies RMB'000</b>	<b>Due (from)/ to controlling shareholder RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2019	—	27,167	5,355	8,854	41,376
Changes from financing cash flows:					
Payment of lease liabilities	—	(6,580)	—	—	(6,580)
Loans received from bank	6,948	—	—	—	6,948
Dividends paid — last year	—	—	(5,980)	(840)	(6,820)
Dividends paid — current period	—	—	(11,961)	—	(11,961)
Capital received	—	—	325	—	325
Proceeds received from related parties	—	—	300	—	300
Change from investing cash flows:					
Cash paid to the controlling shareholder	—	—	(1,206)	(6,342)	(7,548)
Changes from non-cash activities:					
Dividends declared	—	—	11,961	—	11,961
Addition of leases	28(a)	4,542	—	—	4,542
Interest accrued	—	2,302	—	—	2,302
Derecognition	—	(1,047)	—	—	(1,047)
Decrease in paid-in capital	—	—	245	—	245
Repurchase of shares	—	—	341	—	341
At 31 December 2019	<u>6,948</u>	<u>26,384</u>	<u>(620)</u>	<u>1,672</u>	<u>34,384</u>

## At 30 June 2020

<i>Notes</i>	<b>Bank and other loans RMB'000</b>	<b>Lease liabilities (current and non-current) RMB'000</b>	<b>Due (from)/to related companies RMB'000</b>	<b>Due (from)/to controlling shareholder RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2020	6,948	26,384	(620)	1,672	34,384
Changes from financing cash flows:					
Payment of lease liabilities	—	(2,062)	—	—	(2,062)
Loans received from bank	8,057	—	—	—	8,057
Payment of capital reduction	—	—	(245)	—	(245)
Change from investing cash flows:					
Cash paid to related parties	—	—	—	(1,667)	(1,667)
Cash received from related parties	—	—	865	—	865
Changes from non-cash activities:					
Addition of leases	28(a)	400	—	—	400
Lease payments waived	28(b)	(1,823)	—	—	(1,823)
Interest accrued	—	1,020	—	—	1,020
At 30 June 2020	<u>15,005</u>	<u>23,919</u>	<u>—</u>	<u>5</u>	<u>38,929</u>

**(c) Total cash outflow for leases**

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Within operating activities	2,089	1,902	66	47	20
Within financing activities	<u>4,227</u>	<u>6,851</u>	<u>6,580</u>	<u>2,738</u>	<u>2,062</u>
	<u>6,316</u>	<u>8,753</u>	<u>6,646</u>	<u>2,785</u>	<u>2,082</u>

**34 PLEDGE OF ASSETS**

Details of the Group's assets pledged for its interest-bearing bank and other borrowings are disclosed in note 29 to the financial statements.

**35 COMMITMENTS**

As at 30 June 2020, the Group had capital commitments of RMB2,400,000 relating to the future capital contributions payable for software development.

**36 RELATED PARTY TRANSACTIONS**

The Group's principal related parties are as follows:

Name	Relationship with the Company
Mr. Fu Haishu	An executive director and the controlling shareholder
Ningbo Ruixuan Investment Management Partnership (LLP) ("Ningbo Ruixuan")	An entity controlled by the controlling shareholder
Handan Guangshu Aesthetic Medical Consultation Service Centre (LLP) ("Handan Guangshu")	An entity controlled by the controlling shareholder
Ruide Consultation Limited	The parent company

- (a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with a related party during the Track Record Periods and six months ended 30 June 2019:

	Year ended 31 December			Six months ended	
	2017	2018	2019	30 June	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Loans from the controlling shareholder:					
Mr. Fu Haishu	(i) <u>12,321</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

*Note:*

(i) The loans from Mr. Fu Haishu were unsecured, non-interest-bearing and repayable on demand.

(b) Outstanding balances with related parties:

**The Group**

		As at 31 December			As at
		2017	2018	2019	30 June
	Notes	RMB'000	RMB'000	RMB'000	2020
					RMB'000
Due from the controlling shareholder:					
Mr. Fu Haishu	(i)	<u>5,856</u>	<u>—</u>	<u>—</u>	<u>—</u>
Due from related companies:					
Ningbo Ruixuan	(ii)	<u>300</u>	<u>—</u>	<u>—</u>	<u>—</u>
Ruide Consultation Limited	(iii)	<u>—</u>	<u>325</u>	<u>865</u>	<u>—</u>
		<u>300</u>	<u>325</u>	<u>865</u>	<u>—</u>
Due to the controlling shareholder:					
Mr. Fu Haishu	(iv)	<u>—</u>	<u>8,854</u>	<u>1,672</u>	<u>5</u>
Due to related companies:					
Handan Guangshu	(v)	<u>—</u>	<u>4,800</u>	<u>—</u>	<u>—</u>
Ningbo Ruixuan	(vi)	<u>—</u>	<u>880</u>	<u>245</u>	<u>—</u>
		<u>—</u>	<u>5,680</u>	<u>245</u>	<u>—</u>

**The Company**

		As at 31 December			As at
		2017	2018	2019	30 June
	Notes	RMB'000	RMB'000	RMB'000	2020
					RMB'000
Due from related companies:					
Ruide Consultation Limited	(iii)	<u>—</u>	<u>325</u>	<u>465</u>	<u>—</u>
Raily Medical Management Limited	(vii)	<u>—</u>	<u>—</u>	<u>11,639</u>	<u>11,639</u>
Raily Medical Limited	(vii)	<u>—</u>	<u>—</u>	<u>53,181</u>	<u>43,907</u>
Wuhu Raily Medical Equipment Trade Co., Ltd.	(vii)	<u>—</u>	<u>—</u>	<u>2,000</u>	<u>2,006</u>
Raily Medical Management Limited	(vii)	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>
		<u>—</u>	<u>325</u>	<u>67,285</u>	<u>57,556</u>

*Notes:*

- (i) As at 31 December 2017, the outstanding balance mainly represented interest-free loans from Mr. Fu Haishu of RMB10,886,000. Furthermore, in February 2017, Raily Beauty completed the acquisition of a 100% equity interest in Ruian Raily and a 78% equity interest in Wuhu Raily at considerations of RMB2,000,000 and RMB780,000, respectively. In March 2017, Raily Beauty acquired an additional 45% equity interest in Hangzhou Raily from the controlling shareholder at a consideration of RMB2,250,000. The balance as at 31 December 2017 was settled by transferring loans and interests to Mr. Fu Haishu in 2018.
- (ii) On 25 December 2017, Raily Beauty transferred a 30% equity interest in Wuhu Raily to Ningbo Ruixuan at a consideration of RMB300,000 as part of the Reorganization, which was unsettled as at 31 December 2017.
- (iii) On 2 January 2018, 50,000 shares were issued to Ruide Consultation Limited and the consideration was not received as at 31 December 2018.

The outstanding balance as at 31 December 2019 was mainly the paid-in capital and disbursement due from the shareholder of the Company, which was unsecured, non-interest-bearing and repayable on demand.

- (iv) The outstanding balance as at 30 June 2020 mainly represented the disbursement which was unsecured, non-interest-bearing and repayable on demand.

The outstanding balance as at 31 December 2019 mainly represented the transferred interest of RMB1,667,000 on the loans transferred from the Independent Third Party in 2018 to Mr. Fu Haishu and this amount is repayable on demand as at 31 December 2019.

The outstanding balance as at 31 December 2018 represented an unpaid dividend of RMB840,000, unsettled considerations of RMB5,030,000 as at mentioned in note(i) and unpaid loans guaranteed to the controlling shareholder of RMB2,984,000 after netting off with the loan and interests from Independent Third Party amounted to RMB34,997,000.

- (v) The outstanding balance represented an unpaid dividend of RMB4,300,000 and an unpaid consideration of transfer of the equity interest of Raily Beauty to Raily HK of RMB500,000.
- (vi) The outstanding balance as at 31 December 2019 was the reduction of paid-in capital of Wuhu Raily and was settled in March 2020.

The outstanding balance as at 31 December 2018 represented an unpaid dividend of RMB1,680,000, an unsettled consideration for transfer of the equity interest of Wuhu Raily to Ningbo Ruixuan of RMB300,000 and an unsettled consideration for transfer of the equity interest of Hangzhou Raily to Ningbo Ruixuan of RMB500,000.

- (vii) The outstanding balances were due from related companies in the Group.

All the balances due to/from related parties were not trade in nature. All of our amounts due from/to controlling shareholder and related parties will be subsequently settled prior to our Listing using internally generated funds.

## (c) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries, allowances and benefit in kind	1,585	2,484	2,618	1,553	1,104
Pension scheme contributions	<u>35</u>	<u>75</u>	<u>70</u>	<u>50</u>	<u>32</u>
Total compensation paid to key management personnel	<u>1,620</u>	<u>2,559</u>	<u>2,688</u>	<u>1,603</u>	<u>1,136</u>

Further details of directors' and the chief executive's emoluments are included in note 8 to the Historical Financial Information.

## 37 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2017, 2018 and 2019 and 30 June 2020 are as follows:

## 31 December 2017

*Financial assets*

	Financial assets at amortised cost RMB'000
Trade receivables	4,381
Financial assets included in prepayments, other receivables and other assets	3,442
Due from the controlling shareholder	5,856
Due from related companies	300
Cash and cash equivalents	<u>9,418</u>
	<u>23,397</u>

*Financial liabilities*

	Financial liabilities at amortised cost RMB'000
Lease liabilities	15,261
Trade payables	5,953
Financial liabilities included in other payables and accruals	<u>30,235</u>
	<u>51,449</u>

## 31 December 2018

*Financial assets*

	<b>Financial assets at amortised cost RMB'000</b>
Trade receivables	5,097
Financial assets included in prepayments, other receivables and other assets	2,285
Due from related companies	325
Cash and cash equivalents	<u>20,355</u>
	<u>28,062</u>

*Financial liabilities*

	<b>Financial liabilities at amortised cost RMB'000</b>
Lease liabilities	27,167
Trade payables	6,463
Due to the controlling shareholder	8,854
Due to related companies	5,680
Financial liabilities included in other payables and accruals	<u>25,646</u>
	<u>73,810</u>

## 31 December 2019

*Financial assets*

	<b>Financial assets at amortised cost RMB'000</b>	<b>Financial assets at fair value through other comprehensive income RMB'000</b>
Equity investment designated at fair value through other comprehensive income	—	6,000
Trade receivables	8,321	—
Financial assets included in prepayments, other receivables and other assets	3,814	—
Debt investments at amortised cost	11,055	—
Due from related companies	865	—
Cash and cash equivalents	<u>49,410</u>	<u>—</u>
	<u>73,465</u>	<u>6,000</u>

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>
Lease liabilities	26,384
Trade payables	8,475
Due to the controlling shareholder	1,672
Due to related companies	245
Interest-bearing bank and other borrowings	6,948
Financial liabilities included in other payables and accruals	10,112
	<u>53,836</u>

**30 June 2020***Financial assets*

	<b>Financial assets at amortised cost</b> <i>RMB'000</i>	<b>Financial assets at fair value through other comprehensive income</b> <i>RMB'000</i>	<b>Financial assets at fair value through profit or loss</b> <i>RMB'000</i>
Equity investment designated at fair value through other comprehensive income	—	5,908	—
Trade receivables	5,418	—	—
Financial assets included in prepayments, other receivables and other assets	7,133	—	—
Debt investments at amortised cost	11,110	—	—
Other current financial assets	—	—	5,375
Pledged deposits	10,500	—	—
Cash and cash equivalents	27,499	—	—
	<u>61,660</u>	<u>5,908</u>	<u>5,375</u>

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>
Lease liabilities	23,919
Trade payables	10,323
Due to the controlling shareholder	5
Interest-bearing bank and other borrowings	15,005
Financial liabilities included in other payables and accruals	8,766
	<u>58,018</u>



Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, lease liabilities, and amounts due from/to the controlling shareholder and related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

### 38 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts				Fair values			
	As at 31 December			As at	As at 31 December			As at
	2017	2018	2019	30 June	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>								
Equity investment designated at fair value through other comprehensive income	—	—	6,000	5,908	—	—	6,000	5,908
Financial assets at fair value through profit or loss	—	—	—	5,375	—	—	—	5,375
	<u>—</u>	<u>—</u>	<u>6,000</u>	<u>11,283</u>	<u>—</u>	<u>—</u>	<u>6,000</u>	<u>11,283</u>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, interest-bearing bank and other borrowings, financial liabilities included in other payables and accruals, an amount due from/to the controlling shareholder, amounts due from/to related companies and current portion of lease liabilities 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 the end of each of the Relevant Periods, 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 fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The fair value measurement is categorised within level 3 of the fair value hierarchy.

The Group invests in unlisted investments, which represent non-principal-protected wealth management products issued by banks in Mainland China. The Group has estimated the fair values of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2020:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
				2% increase in discount would result in decrease in fair value by RMB191,000
Unlisted equity investments	Valuation multiples	Discount for lack of marketability	29% to 31%	RMB191,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

#### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investment designated at fair value through other comprehensive income	—	6,000	—	6,000

As at 30 June 2020

	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
Equity investment designated at fair value through other comprehensive income	—	—	5,908	5,908
Financial assets at fair value through profit or loss	—	5,375	—	5,375
	—	5,375	5,908	11,283

The movements in fair value measurements within Level 3 during the Track Record Period are as follows:

	As at 30 June 2020 RMB'000
Equity investments at fair value through other comprehensive income:	
Transfer from level 2 (At 1 January 2020)	6,000
Total losses recognised in other comprehensive income	(92)
At 30 June 2020	5,908

During the Track Record Period, there were no transfers of fair value measurements between Level 1 and Level 2 for financial asset. During six months ended 30 June 2020, equity investments at fair value through other comprehensive income has transferred from Level 2 to Level 3.

### 39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. 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, 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 exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. The interest rates and terms of repayment of borrowings are disclosed in note 29 to the historical financial information.

The following table demonstrates the sensitivity to a reasonably possible change in RMB interest rate, with all other variable held constant, of the Group's loss before tax and the Group's equity.

30 June 2020

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
RMB	10	5

**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.

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 2017, 2018 and 2019 and 30 June 2020.

**As at 31 December 2017**

	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*	—	—	—	4,381	4,381
Financial assets included in prepayments, other receivables and other assets					
— normal**	3,442	—	—	—	3,442
Due from the controlling shareholder					
— Not yet past due	5,856	—	—	—	5,856
Due from related companies					
— Not yet past due	300	—	—	—	300
Cash and cash equivalents					
— Not yet past due	9,418	—	—	—	9,418
	<u>19,016</u>	<u>—</u>	<u>—</u>	<u>4,381</u>	<u>23,397</u>

## As at 31 December 2018

	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*	—	—	—	5,097	5,097
Financial assets included in prepayments, other receivables and other assets					
— normal**	2,285	—	—	—	2,285
Due from related companies					
— Not yet past due	325	—	—	—	325
Cash and cash equivalents					
— Not yet past due	20,355	—	—	—	20,355
	<u>22,965</u>	<u>—</u>	<u>—</u>	<u>5,097</u>	<u>28,062</u>

## As at 31 December 2019

	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*	—	—	—	8,321	8,321
Financial assets included in prepayments, other receivables and other assets					
— normal**	3,814	—	—	—	3,814
Debt investments at amortised cost					
— normal**	11,055	—	—	—	11,055
Due from related companies					
— Not yet past due	865	—	—	—	865
Cash and cash equivalents					
— Not yet past due	49,410	—	—	—	49,410
	<u>65,144</u>	<u>—</u>	<u>—</u>	<u>8,321</u>	<u>73,465</u>

As at 30 June 2020

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	—	—	—	5,418	5,418
Financial assets included in prepayments, other receivables and other assets — normal**	7,133	—	—	—	7,133
Debt investments at amortised cost — normal**	11,110	—	—	—	11,110
Pledged deposits — Not yet past due	10,500	—	—	—	10,500
Cash and cash equivalents — Not yet past due	27,499	—	—	—	27,499
	<u>56,242</u>	<u>—</u>	<u>—</u>	<u>5,418</u>	<u>61,660</u>

\* 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 Historical Financial Information.

\*\* 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”.

### 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 31 December 2017, 2018 and 2019 and 30 June 2020, based on the contractual undiscounted payments, is as follows:

As at 31 December 2017

	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities	—	3,933	14,272	500	18,705
Trade payables	5,953	—	—	—	5,953
Financial liabilities included in other payables and accruals	30,235	—	—	—	30,235
	<u>36,188</u>	<u>3,933</u>	<u>14,272</u>	<u>500</u>	<u>54,893</u>

## As at 31 December 2018

	<b>On demand</b>	<b>Within</b>	<b>1 to 5 years</b>	<b>Over</b>	<b>Total</b>
	<i>RMB'000</i>	<i>1 year</i>	<i>RMB'000</i>	<i>5 years</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Lease liabilities	—	6,341	25,743	621	32,705
Trade payables	6,463	—	—	—	6,463
Due to the controlling shareholder	8,854	—	—	—	8,854
Due to related companies	5,680	—	—	—	5,680
Financial liabilities included in other payables and accruals	23,248	—	—	—	23,248
	<u>44,245</u>	<u>6,341</u>	<u>25,743</u>	<u>621</u>	<u>76,950</u>

## As at 31 December 2019

	<b>On demand</b>	<b>Within 1</b>	<b>1 to 5 years</b>	<b>Over</b>	<b>Total</b>
	<i>RMB'000</i>	<i>year</i>	<i>RMB'000</i>	<i>5 years</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Lease liabilities	—	6,921	24,651	—	31,572
Trade payables	8,475	—	—	—	8,475
Due to the controlling shareholder	3,338	—	—	—	3,338
Due to related companies	245	—	—	—	245
Interest-bearing bank and other borrowings	—	7,279	—	—	7,279
Financial liabilities included in other payables and accruals	10,112	—	—	—	10,112
	<u>22,170</u>	<u>14,200</u>	<u>24,651</u>	<u>—</u>	<u>61,021</u>

## As at 30 June 2020

	<b>On demand</b>	<b>Within</b>	<b>1 to 5 years</b>	<b>Over</b>	<b>Total</b>
	<i>RMB'000</i>	<i>1 year</i>	<i>RMB'000</i>	<i>5 years</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Lease liabilities	—	7,422	22,723	—	30,145
Trade payables	10,323	—	—	—	10,323
Due to the controlling shareholder	5	—	—	—	5
Interest-bearing bank and other borrowings	—	15,333	—	—	15,333
Financial liabilities included in other payables and accruals	8,766	—	—	—	8,766
	<u>19,094</u>	<u>22,755</u>	<u>22,723</u>	<u>—</u>	<u>64,572</u>



**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 Track Record Period.

**40 EVENT AFTER THE TRACK RECORD PERIOD**

The outbreak of a respiratory illness caused by Novel Coronavirus, or known as the *Covid-19*, in China has affected many businesses to different extent. All the Group's businesses are operating in various locations in mainland China where different precautions measures are imposed by local governments, which are implemented to gather or by stages depending on the latest development. The Group's ability to serve customers is largely depending on various government measures and continuous supply from its suppliers and the availability of workforce, which may be affected by the travel restrictions and home quarantine requirements.

The Group will continue to pay close attention to the development of *Covid-19*, evaluate and actively respond to its impact on the Group's financial situation, operating results and other aspects. The *Covid-19* outbreak will not seriously adversely affect the continuous operation of the Group.

**41 SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company, the Group or any of the companies comprising the Group in respect of any period subsequent to 30 June 2020 up to the date of this report.

*The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.*

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Global Offering had taken place on 30 June 2020.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 30 June 2020 or any future dates.

The following statement of unaudited pro forma adjusted consolidated net tangible assets is based on the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 as shown in the Accountants' Report of the Group, the text of which is set forth in Appendix I to this prospectus, and is adjusted as follows:

	Consolidated net tangible assets attributable to owners of the Company as at 30 June 2020 RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets RMB'000	Unaudited pro forma adjusted consolidated net tangible assets per Share RMB (Note 3)	Unaudited pro forma adjusted consolidated net tangible assets per Share HK\$ equivalent
Based on an Offer Price of HK\$0.40 per Share	<u>60,322</u>	<u>92,592</u>	<u>152,914</u>	<u>0.07</u>	<u>0.09</u>
Based on an Offer Price of HK\$0.30 per Share	<u>60,322</u>	<u>68,416</u>	<u>128,738</u>	<u>0.06</u>	<u>0.07</u>

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as of 30 June 2020 is arrived at after deducting RMB457,000 intangible assets and RMB20,210,000 goodwill from the audited consolidated equity attributable to owners of the Company of RMB80,989,000 as of 30 June 2020, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

- (2) The estimated net proceeds from the Global Offering are based on estimated offer prices of HK\$0.30 or HK\$0.40 per Share after deduction of the underwriting fees and other related expenses payable by our Company and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds are converted into RMB at the rate of RMB1 = HK\$1.19, which is set forth on page 67 of this prospectus. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at the rate or at any other rates at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 2,055,000,000 Shares are in issue assuming that the Global Offering has been completed on 30 June 2020 and an Offer Price of HK\$0.30 per Share, being the low end of the Offer Price range, and 2,055,000,000 Shares are in issue assuming that the Global Offering has been completed on 30 June 2020 and an Offer Price of HK\$0.40 per Share, being the high end of the Offer Price range, excluding Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 June 2020 to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a letter received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

**To the Directors of Raily Aesthetic Medicine International Holdings Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Raily Aesthetic Medicine International Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 June 2020, and related notes as set out on pages II-1 to II-2 of the prospectus dated 15 December 2020 issued by the Company (the “**Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 30 June 2020 as if the transaction had taken place at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2020, on which an accountants' report has been published.

**Directors' responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

*Certified Public Accountants*  
Hong Kong

15 December 2020

*The forecast of the consolidated profit attributable to owners of the Company for the year ending 31 December 2020 is set out in the section headed “Financial Information — Profit Forecast for the Year Ending 31 December 2020” in this prospectus.*

#### **A. BASES AND ASSUMPTIONS**

Our Directors have prepared the forecast of the consolidated profit attributable to owners of the Company for the year ending 31 December 2020 based on the audited consolidated results of our Group for the six months ended 30 June 2020, the unaudited consolidated results based on (i) the audited consolidated financial information of our Group for the six months ended 30 June 2020 as set out in the Accountants’ Report in Appendix I to this prospectus; (ii) the unaudited consolidated results based on management accounts of our Group for the four months ended 31 October 2020; and (iii) a forecast of the consolidated results of our Group for the remaining two months ending 31 December 2020, taking into account the estimated total listing expenses of approximately RMB15.1 million for the year ending 31 December 2020, in the absence of unforeseen circumstances, and in particular the resurgence of the outbreak of COVID-19 in the PRC. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarized in “Accountants’ Report” as set out in Appendix I to this prospectus.

Our Directors have adopted the following principal assumptions in the preparation of the profit forecast:

- there will be no material changes in existing government policies or political and legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in any of the countries, regions or industries in which our Group operates;
- there will be no government action, or any other unforeseen circumstances beyond the control of the Company which will have a material adverse effect on the operations and result of the Group;
- Our Group’s operation and financial performance will not be materially and adversely impacted by any of the risk factors set forth in the section headed “Risk Factors” in this prospectus;
- there will be no material change in the bases or rates of taxation or duties in any of the countries in which the Group operates or in which the Group’s companies are incorporated or registered;
- there will be no material changes in the inflation rate, interest rates and exchange rates from the current prevailing rates;
- there will be no changes in the existing accounting policies, critical accounting estimates and judgment from those adopted in the preparation of our Group’s results for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 which are included in this prospectus;



- our Group's operation and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of our Directors, including but not limited to the resurgence of the outbreak of COVID-19 in the PRC, the occurrence of natural disasters or epidemic or serious accidents, supply failure, labour dispute, significant lawsuit and arbitration;
- there will be no material changes in our Group's mode of business dealings with its clients and suppliers, in the credit policies offered to clients and granted by suppliers of our Group, and our Group will be able to secure new clients under normal business criteria;
- our Group will continue to be able to recruit sufficient qualified personnel to achieve our planned expansion and will at all times maintain a staffing level that will be sufficient for our operational requirements;
- our Directors, senior management and other necessary personnel continue to be involved in the operations of our Group;
- there will be no significant fluctuation for the fair value of the financial assets at fair value through profit or loss held by our Group;
- saved for those specifically disclosed in this prospectus, our Group will not undertake any other major acquisition or disposal of assets or investments; and
- total listing expenses of approximate RMB15.1 million are estimated to be incurred during the year ending 31 December 2020.

**B. LETTER FROM OUR REPORTING ACCOUNTANT ON PROFIT FORECAST**

Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

*The Board of Directors*  
**Raily Aesthetic Medicine International Holdings Limited**  
**Innovax Capital Limited**

Dear Sirs,

**Raily Aesthetic Medicine International Holdings Limited (“the Company”)**

**Profit forecast for year ending 31 December 2020**

We refer to the forecast of the consolidated profit attributable to equity holders of the Company for the year ending 31 December 2020 (“**the Profit Forecast**”) set forth in the section headed “Financial Information” in the prospectus of the Company dated 15 December 2020 (“**the Prospectus**”).

**Directors’ responsibilities**

The Profit Forecast has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiaries (collectively referred to as “**the Group**”) for the six months ended 30 June 2020, the unaudited consolidated results based on the management accounts of the Group for the four months ended 31 October 2020 and a forecast of the consolidated results of the Group for the remaining two months ending 31 December 2020.

The Company’s directors are solely responsible for the Profit Forecast.

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system

of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Forecast based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 Reporting on *Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Forecast in accordance with the bases and assumptions adopted by the directors and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

**Opinion**

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions adopted by the directors as set out in Appendix I of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 15 December 2020, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

15 December 2020

**C. LETTER FROM THE SOLE SPONSOR ON PROFIT FORECAST**

*The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Sole Sponsor, in connection with the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020.*

**Innovax Capital Limited**  
Room 2002, 20/F  
Chinachem Century Tower  
178 Gloucester Road  
Wan Chai  
Hong Kong

*The Board of Directors*  
**Raily Aesthetic Medicine International Holdings Limited**

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to equity shareholders of Raily Aesthetic Medicine International Holdings Limited (the “**Company**”) for the year ending 31 December 2020 (the “**Profit Forecast**”) as set out in the section headed “Financial Information — Profit Forecast For the Year Ending 31 December 2020” in the prospectus of the Company dated 15 December 2020 (the “**Prospectus**”).

The Profit Forecast, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by the Directors based on (i) the audited consolidated financial information of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 as set out in the Accountants’ Report in Appendix I to the Prospectus; (ii) the unaudited consolidated results based on management accounts of the Group for the four months ended 31 October 2020; and (iii) a forecast of the consolidated results of the Group for the remaining two months ending 31 December 2020, taking into account the estimated total listing expenses of approximately RMB15.1 million for the year ending 31 December 2020, in the absence of unforeseen circumstances, and in particular the resurgence of the outbreak of COVID-19 in the PRC.

We have discussed with you the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus, upon which the Profit Forecast has been made. We have also considered, and relied upon, the letter dated 15 December 2020 addressed to you and us from Ernst & Young regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully  
For and on behalf of  
**Innovax Capital Limited**  
**Erica Ling**  
*Director*

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Companies Act.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 January 2018 under the Cayman Companies Act. The Company's constitutional documents consist of the memorandum and the Articles.

## **1. MEMORANDUM OF ASSOCIATION**

- 1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 4 December 2020. A summary of certain provisions of the Articles is set out below.

### **2.1 Shares**

#### ***(a) Classes of shares***

The share capital of the Company consists of ordinary shares.

#### ***(b) Variation of rights of existing shares or classes of shares***

Subject to the Cayman Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in

nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

***(c) Alteration of capital***

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

***(d) Transfer of shares***

Subject to the Cayman Companies Act and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(e) Power of the Company to purchase its own shares***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.



*(f) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

*(g) Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

## 2.2 Directors

### *(a) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

*(b) Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Act, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Act, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(c) Power to dispose of the assets of the Company or any of its subsidiaries*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Act to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

*(d) Borrowing powers*

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Act, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(e) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

***(f) Compensation or payments for loss of office***

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

***(g) Loans and provision of security for loans to Directors***

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(h) Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;



- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub- underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

### **2.3 Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### **2.4 Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under the Cayman Islands laws and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**2.5 Meetings of member*****(a) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

***(b) Voting rights and right to demand a poll***

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorization shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

***(c) Annual general meetings***

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

*(d) Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Act and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

*(e) Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than

an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

***(f) Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

***(g) Members' requisition for meetings***

Extraordinary general meetings shall be convened on the requisition of one or more members 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 of the Company 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.

**2.6 Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Act (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Act or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Shareholders of the Company shall in general meetings appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Shareholders in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**2.7 Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.



Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

## **2.8 Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

## **2.9 Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 of this Appendix.

**2.10 Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

**2.11 Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

### 3. CAYMAN COMPANIES ACT

The Company was incorporated in the Cayman Islands as an exempted company on 2 January 2018 subject to the Cayman Companies Act. Certain provisions of Cayman companies laws are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Act and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### 3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### 3.2 Share capital

Under the Cayman Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Cayman Companies Act;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

### **3.3 Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

### **3.4 Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **3.5 Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Act, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

### **3.6 Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

### **3.7 Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**3.8 Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2020 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**3.9 Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**3.10 Taxation**

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**3.11 Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**3.12 Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**3.13 Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**3.14 Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2020 Revision) of the Cayman Islands.

**3.15 Register of Directors and officers**

Pursuant to the Cayman Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

**3.16 Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.



In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### **3.17 Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**3.18 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**3.19 Indemnification**

Cayman Islands laws does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**3.20 Economic substance**

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act, 2018, which became effective on 1 January 2019, together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from 1 July 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

**4. GENERAL**

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of the Companies Act. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of the Cayman Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation of our Company**

Our Company was incorporated as an exempted company in the Cayman Islands under the Companies Act on 2 January 2018. Our Company's registered office is located at 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands. Our principal place of business in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 25 June 2019. Mr. Chan Oi Fat have been appointed as our authorised representative for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Act and its constitution comprises the Memorandum of Association and Articles of Association. A summary of various provisions of the Memorandum of Association and Articles of Association and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company**

The authorized share capital of our Company as at the date of its incorporation was US\$50,000 divided into 50,000 Shares with par value of US\$1.00 each. The following sets out the changes in the Company's issued share capital since our Company's incorporation up to the date of this prospectus.

- (a) On 2 January 2018, one fully paid Share was allotted and issued to an initial subscriber, which was subsequently transferred to Ruide BVI on the same day. 49,999 Shares were allotted and issued to Ruide BVI on 2 January 2018.
- (b) On 24 January 2019, 50,000 issued Shares of par value of US\$1.00 each in the capital of our Company were subdivided into US\$0.01 each, such that following such share subdivision, the authorized share capital of our Company was US\$50,000 divided into 5,000,000 Shares of par value of US\$0.01 each. 4,956,500 Shares of par value of US\$0.01 each were repurchased by our Company from Ruide BVI at a purchase price of US\$49,565. Upon completion of such share repurchase, the repurchased Shares were cancelled.
- (c) On 24 January 2019, our Company allotted and issued Shares in the following manner:
  - (i) 3,500 Shares to Beauty Milkway; and
  - (ii) 3,000 Shares to Youxin Management.

- (d) On 30 April 2019, our Company allotted and issued Shares in the following manner:
  - (i) 3,889 Shares to Huamei Medical;
  - (ii) 1,556 Shares to Shanghai Paibo; and
  - (iii) 3,889 Shares to Shanghai Donghua.
- (e) On 29 April 2019, Ruide BVI transferred 2,967 Shares, 1,125 Shares and 974 Shares to Success Concept, Mr. Cheng Lei Jack and Beauty Milkway, respectively.
- (f) On the date immediately preceding the date on which the Global Offering becomes unconditional, the authorized share capital of our Company will be increased from US\$50,000 to US\$30,000,000 by the creation of 2,995,000,000 additional Shares, each ranking *pari passu* with our Shares then in issue in all respects.
- (g) Immediately following completion of the Capitalization Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-Allotment Option), the issued share capital of our Company will be US\$20,550,000 divided into 2,055,000,000 Shares full paid or credited as fully paid and 945,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in “Resolutions in writing of the Shareholders passed on 4 December 2020” in this Appendix and pursuant to the exercise of the Over-allotment Option, our Directors does not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares which would effectively alter the control of our Company will be made.

Save for the aforesaid and as mentioned in the paragraph headed “A. Further Information about Our Group — 4. Resolutions in writing of the Shareholders passed on 4 December 2020” below in this Appendix, there has been no other alteration in the share capital of our Company since its incorporation.

### **3. Changes in share capital of our subsidiaries**

Our subsidiaries are referred to in the Accountants’ Report in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants’ Report and in the section headed “History and Reorganization” in this prospectus, our Company has no other subsidiaries. For details on the changes in share capital of our subsidiaries, see the section headed “History and Reorganization — Our Corporate History” in this prospectus.

Save as disclosed above and in the section headed “History and Reorganization — Our Corporate History” in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

#### **4. Resolutions in writing of the Shareholders passed on 4 December 2020**

Pursuant to the written resolutions of the Shareholders of our Company passed on 4 December 2020, among other things:

- (a) the Memorandum of Association and Articles of Association were approved and adopted as the new memorandum of association and articles of association of our Company, in substitution for and to the exclusion of the existing memorandum of association and articles of association of our Company, with effect from the Listing Date;
- (b) the Listing, the Global Offering, the Capitalization Issue and the Over-Allotment Option was approved, subject to such modifications as our Directors (or any committee established by the Board) may in their sole discretion determine, and our Directors or any committee established by the Board were authorised to do all such things as they consider necessary to give effect to the Listing, the Global Offering, the Capitalization Issue and the Over-Allotment Option;
- (c) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Other Information — 1. Share Option Scheme” below in this Appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for the Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all actions as they consider necessary or desirable to implement the Share Option Scheme;
- (d) a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warranties or similar rights to subscribe for Shares or such convertible securities and to make or grant general offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles; (c) a specific authority granted by the shareholders in general meeting, shall not exceed the aggregate of (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (excluding any Shares to be issued upon the Over-Allotment Option; and (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any)

under the general mandate to repurchase Shares referred to in paragraph (f) below, such mandate to remain effective during the period from the passing of the resolution until the conclusion of our next annual general meeting, or the expiration of the period within which we are required by any applicable law or Articles to hold our next annual general meeting or the date on which the resolution is varied or revoked by any ordinary resolution of the shareholders in the general meeting, whichever occurs first (the “**Applicable Period**”);

- (e) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering (excluding any Shares to be issued upon the Over-Allotment Option), such mandate to remain effective during the Applicable Period; and
- (f) the general unconditional mandate mentioned in paragraph (e) above to be extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate repurchase Shares referred to in paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of our Company’s share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares to be issued upon the Over-Allotment Option).

## 5. Corporate reorganization

In preparation for the Global Offering, we underwent the Reorganization, details of which are set out in the section headed “History and Reorganization” in this prospectus. Following the Reorganization, our Company became the holding company of our Group.

A diagram showing our Group structure after the Reorganization and immediately upon completion of the Capitalization Issue and the Global Offering (assuming that the Over-Allotment Option is not exercised) is set out in the section headed “History and Reorganization — Corporate Structures” in this prospectus.

## 6. Share Repurchase Mandate

### *(a) Relevant legal and regulatory requirements*

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by our Shareholders in a general meeting.



*(b) Shareholders' approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction. On 4 December 2020, our Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of our share capital in issue immediately following completion of the Capitalization Issue and the Global Offering but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of our next annual Shareholders' general meeting, and (ii) such mandate being revoked or varied by ordinary resolution of our Shareholders in a general meeting (the "**Relevant Period**").

*(c) Source of funds*

Our repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with our Memorandum of Association, our Articles of Association, the Listing Rules, the Cayman Companies Act and the applicable laws of the Cayman Islands. We may not repurchase our Shares on the Stock Exchange for consideration other than cash or for settlement other than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, under Cayman Islands law, we may make repurchases out of the profit of our Company, or out of the share premium account, or out of the proceeds of a new issuance of shares made for the purpose of the repurchase or, if authorised by our Articles of Association and subject to the provisions of the Cayman Companies Act, out of capital. Any premium payable on the purchase over the par value of the Shares to be repurchased must be provided for out of either or both the profits of our Company or our Company's share premium account, or if so authorised by our Articles of Association and subject to the Cayman Companies Act, out of capital.

*(d) Suspension of repurchase*

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and



- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

***(e) Procedural and reporting requirements***

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange on the business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

***(f) Connected parties***

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the listed company on the Stock Exchange.

***(g) Reasons for repurchase***

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of our Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

***(h) Funding of repurchase***

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Memorandum and Articles of Association, Companies Law or any other applicable laws of Cayman Islands and the Listing Rules. On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase

Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which, in the opinion of our Directors, are from time to time appropriate for us.

***(i) Share capital***

The exercise in full of the current Repurchase Mandate, on the basis of 2,055,000,000 Shares in issue immediately following completion of the Capitalization Issue and the Global Offering but before any exercise of the Over-allotment Option, could accordingly result in up to 205,500,000 Shares being repurchased by us during the Relevant Period.

***(j) General***

None of our Directors nor, to the best of their knowledge, having made all reasonable inquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum and Articles of Association, the Companies Law and any other applicable laws of the Cayman Islands. If, as a result of any repurchase of our Shares pursuant to the Repurchase Mandate, a shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders interest, could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Our Directors are not aware of any consequences of repurchases which could arise under the Takeovers Code if the Repurchase Mandate is exercised. No connected person, as defined in the Listing Rules, has notified us that he/she or it has a present intention to sell his/her or its Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT OUR BUSINESS**

**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or any member of our Group within two years preceding the date of this prospectus and are or may be material:

- (a) the Business Cooperation Agreement dated 1 January 2019, entered into among Raily Tiange, Raily Beauty Consultation and Fu Haishu, as further described in the section headed "Contractual Arrangements";
- (b) the Business Cooperation Agreement dated 1 January 2019, entered into among Ruian Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed "Contractual Arrangements";

- (c) the Business Cooperation Agreement dated 1 January 2019, entered into among Hangzhou Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed “Contractual Arrangements”;
- (d) the Exclusive Option Agreement dated 1 January 2019, entered into among Hangzhou Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed “Contractual Arrangements”;
- (e) the Exclusive Option Agreement dated 1 January 2019, entered into among Ruian Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed “Contractual Arrangements”;
- (f) the Exclusive Option Agreement dated 1 January 2019, entered into among Raily Tiange, Raily Beauty Consultation and Fu Haishu, as further described in the section headed “Contractual Arrangements”;
- (g) the Equity Pledge Agreement dated 1 January 2019, entered into among Hangzhou Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed “Contractual Arrangements”;
- (h) the Equity Pledge Agreement dated 1 January 2019, entered into among Raily Tiange, Raily Beauty Consultation and Fu Haishu, as further described in the section headed “Contractual Arrangements”;
- (i) the Equity Pledge Agreement dated 1 January 2019, entered into among Ruian Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed “Contractual Arrangements”;
- (j) the Voting Rights Proxy Agreement dated 1 January 2019, entered into among Hangzhou Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed “Contractual Arrangements”;
- (k) the Voting Rights Proxy Agreement dated 1 January 2019, entered into among Raily Tiange, Raily Beauty Consultation and Fu Haishu, as further described in the section headed “Contractual Arrangements”;
- (l) the Voting Rights Proxy Agreement dated 1 January 2019, entered into among Ruian Raily, Raily Beauty Consultation and Ningbo Ruixuan, as further described in the section headed “Contractual Arrangements”;
- (m) a share subscription agreement dated 24 January 2019 entered into between our Company and Youxin Management, pursuant to which Youxin Management agreed to subscribe for 3,000 Shares in our Company, at a consideration of RMB1,200,000;



- (n) a share subscription agreement dated 24 January 2019 entered into between our Company and Beauty Milkway, pursuant to which Beauty Milkway agreed to subscribe for 3,500 Shares in our Company, at a consideration of RMB1,400,000;
- (o) a capital increase agreement dated 15 April 2019 entered into between our Company, Huamei Medical, Ruide BVI, Beauty Milkway, Youxin Management, Fu Haishu and Raily Beauty Consultation, pursuant to which Huamei Medical agreed to subscribe for 6.55% equity interest in our Company, at a consideration of RMB35,000,000;
- (p) a capital increase agreement dated 18 April 2019 entered into between our Company, Shanghai Donghua, Fu Haishu, Ruide BVI, Raily Beauty Consultation, Beauty Milkway and Youxin Management, pursuant to which Shanghai Donghua agreed to subscribe for 6.55% equity interest in our Company, at a consideration of RMB35,000,000;
- (q) a capital increase agreement dated 18 April 2019 entered into between our Company, Shanghai Paibo, Fu Haishu, Ruide BVI, Raily Beauty Consultation, Beauty Milkway, Youxin Management, pursuant to which Shanghai Paibo agreed to subscribe for 2.62% equity interest in our Company, at a consideration of RMB14,000,000;
- (r) the shareholders' agreement of Raily Aesthetic Medicine International Holdings Limited dated 18 April 2019, entered into among Shanghai Paibo, Huamei Medical, Shanghai Donghua, Fu Haishu, Ruide BVI, Raily Beauty Consultation, Beauty Milkway, Youxin Management and our Company;
- (s) the supplemental agreement dated 22 April 2019 entered into between our Company, Shanghai Donghua, Ruide BVI, Fu Haishu and Raily Beauty Consultation relating to the shareholders' agreement of Raily Aesthetic Medicine International Holdings Limited;
- (t) the supplemental agreement dated 22 April 2019 entered into between our Company, Huamei Medical, Ruide BVI, Fu Haishu and Raily Beauty Consultation relating to the shareholders' agreement of Raily Aesthetic Medicine International Holdings Limited;
- (u) the supplemental agreement dated 22 April 2019 entered into between our Company, Shanghai Paibo, Ruide BVI, Fu Haishu and Raily Beauty Consultation relating to the shareholders' agreement of Raily Aesthetic Medicine International Holdings Limited;

- (v) the supplemental agreement dated 22 April 2019 entered into between our Company, Shanghai Paibo, Huamei Medical, Shanghai Donghua, Beauty Milkway, Youxin Management, Ruide BVI, Fu Haishu and Raily Beauty Consultation relating to the shareholders' agreement of Raily Aesthetic Medicine International Holdings Limited;
- (w) the Deed of Indemnity dated 4 December 2020 entered into by Fu Haishu and Ruide BVI in favour of our Company (for itself and as trustee for its subsidiaries) to provide certain indemnities;
- (x) the cornerstone investment agreement dated 11 December 2020 entered into among our Company, Haohai Healthcare Holdings Co., Limited, Innovax Capital Limited, Innovax Securities Limited and Elstone Securities Limited, as further described in the section headed "Cornerstone Investors";
- (y) the cornerstone investment agreement dated 11 December 2020 entered into among our Company, Tuyi HK Group Co., Limited, Innovax Capital Limited, Innovax Securities Limited and Elstone Securities Limited, as further described in the section headed "Cornerstone Investors"; and
- (z) Hong Kong Underwriting Agreement.

## 2. Intellectual property rights

### (a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be material to our business:

No	Trademark	Class	Registration Number	Registered owner	Place of Registration	Duration
1.	Raily	44	12703651	Raily Beauty Consultation	PRC	21 October 2014– 20 October 2024
2.	瑞泉	5, 10	15794815	Raily Beauty Consultation	PRC	14 March 2016– 13 March 2026
3.	美塑得	3	5468924	Raily Beauty Consultation	PRC	21 September 2009– 20 September 2029
4.	MESOMATE	3	5468925	Raily Beauty Consultation	PRC	21 September 2009– 20 September 2029
5.		3, 5, 10, 37, 41, 42, 44	304638745	Raily Beauty Consultation	Hong Kong	17 August 2018– 16 August 2028
6.		9, 16, 35, 36, 38, 45	304720932	Raily Beauty Consultation	Hong Kong	1 November 2018– 31 October 2028
7.	丝露格	3, 35, 44	35152028	Guangzhou Yingjieshi	PRC	7 September 2019– 6 September 2029

*(b) Domain Names*

As of the Latest Practicable Date, we had registered the following domain names which we consider to be material to our business:

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
1.	www.raily.com	Raily Tiange	5 May 2000	25 September 2025
2.	www.rlzx.cc	Hangzhou Raily	7 March 2013	7 March 2023
3.	www.hzzxyy.cc	Raily Tiange	7 March 2013	7 March 2023
4.	www.ruilizx.net	Hangzhou Raily	7 March 2013	7 March 2021
5.	www.ruilizx.com.cn	Raily Tiange	7 March 2013	7 March 2026
6.	www.ruilizx.com	Hangzhou Raily	27 October 2008	27 October 2024
7.	www.railyzx.cn	Hangzhou Raily	18 October 2013	18 October 2021
8.	www.85181111.net	Hangzhou Raily	3 April 2015	3 April 2021
9.	www.raily.net	Hangzhou Raily	3 April 2015	3 April 2021
10.	www.85181111.cn	Hangzhou Raily	3 April 2015	3 April 2021
11.	www.railyzx.com	Hangzhou Raily	18 October 2013	18 October 2021
12.	www.85181111.com	Hangzhou Raily	9 October 2014	9 October 2025
13.	www.rlmr.com	Hangzhou Raily	22 September 2006	22 September 2024
14.	www.wuhuruili.cn	Wuhu Raily	19 March 2015	19 March 2021
15.	www.whrlzx.cn	Wuhu Raily	19 March 2015	19 March 2021
16.	www.ruili0553.com	Wuhu Raily	14 January 2017	14 January 2021
17.	www.ruili0553.cn	Wuhu Raily	14 January 2017	14 January 2021
18.	www.ruili0553.xyz	Wuhu Raily	14 January 2017	15 January 2021
19.	www.whrlzx.com	Wuhu Raily	19 March 2015	19 March 2021
20.	www.wuhuruili.com	Wuhu Raily	19 March 2015	19 March 2021
21.	www.raruii.com	Ruian Raily	8 November 2012	8 November 2024
22.	www.wzrlzx.com	Ruian Raily	31 March 2013	1 April 2021
23.	www.razxyy.com	Ruian Raily	31 March 2013	1 April 2021
24.	www.ruilizx.cn	Raily Tiange	23 November 2008	23 November 2025

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights registered by our Group which are material to our business.

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of Interests

#### *(a) Interests and short positions of our Directors and chief executive in the Shares, underlying Shares or debentures of our Company and our associated corporations*

Immediately following completion of the Capitalization Issue and the Global Offering (assuming that the Over-Allotment Option is not exercised), so far as our Directors are aware, the interests or short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed, will be as follows:

#### *(i) Long positions in our Shares*

Name	Nature of interest(s)	Number of Shares held Share(s) <sup>(1)</sup>	Approximate percentage of Shareholder <sup>(2)</sup>
Mr. Fu <sup>(3)</sup>	Interest in a controlled corporation	1,109,283,463	53.98%

#### *Notes:*

- (1) All interest stated are long positions.
- (2) The calculation is based on the total number of 2,055,000,000 Shares in issue immediately after completion of the Capitalization Issue and the Global Offering (assuming that the Over-Allotment Option is not exercised).
- (3) These Shares were held by Ruide BVI which was in turn owned as to 100% by Mr. Fu. Accordingly, Mr. Fu is deemed to be interested in all the Shares held by Ruide BVI for the purpose of Part XV of the SFO.



*(ii) Long position in the ordinary shares of our associated corporation*

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of Share(s) held <sup>(1)</sup>	Approximate percentage of Shareholding
Mr. Fu	Ruide BVI <sup>(2)</sup>	Beneficial owner	1,109,283,463	53.98%

*Note:*

- (1) All interest stated are long positions.
- (2) Ruide BVI is the direct shareholder of our Company and is an associated corporation within the meaning of Part XV of the SFO.

***(b) Interests of the substantial shareholders in the Shares, underlying Shares or debentures of our Company and other members of our Group***

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares or the underlying Shares which, once the Shares are listed, would fall to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who is or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

**2. Particulars of service contracts**

Each of our executive Directors, Mr. Fu, Mr. Yu and Mr. Song, all being our executive Directors, Mr. Xie and Ms. Fan being our non-executive Directors will enter into a service agreement with our Company with an initial term of three years commencing on the Listing Date, and will continue thereafter until terminated in accordance with the provisions of the service agreement or by not less than three months’ notice in writing served by either party on the other.

Each of our independent non-executive Directors will enter into a letter of appointment with our Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of our independent non-executive Directors is appointed with an initial term of three years commencing on the Listing Date subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any members of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**3. Director's remuneration**

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowances and other benefits in kind) incurred for the three years ended 31 December 2019 and six months ended 30 June 2020 was approximately RMB1.6 million, RMB2.6 million, RMB2.7 million and RMB1.1 million, respectively.

Save as the disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors for the three years ended 31 December 2019 and six months ended 30 June 2020.

Pursuant to the existing arrangements that are in force as of the date of this prospectus, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending 31 December 2020 is estimated to be approximately RMB3.9 million in aggregate.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for the three years ended 31 December 2019 and six months ended 30 June 2020 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the three years ended 31 December 2019 and six months ended 30 June 2020.

**4. Agent fees or commissions received**

Save in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the section headed "Qualification of experts" in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any share or loan capital of our Company or any member of our Group within two years preceding the date of this prospectus.

**5. Disclaimers**

Save as disclosed in this prospectus:

- (i) There are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and member of our Group. For further details, see the paragraph headed "C. Further Information about our Directors and Substantial Shareholders — 2. Particulars of service contracts" in this Appendix;

- (ii) none of our Directors nor any of the parties listed in the paragraph headed “Qualification of experts” in this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to our Company or any member of our Group, or are proposed to be acquired or disposed of by or leased to our Company or any member of our Group;
- (iii) none of our Directors or chief executive of our Company has any interests and short position in the Shares, underlying Shares and debentures of our Company or our associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange. For further details, see the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders” in this Appendix;
- (iv) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any other member of our Group. For further details, see the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders” in this Appendix;
- (v) none of our Directors nor any of the parties listed in the section headed “Qualification of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business in our Group;
- (vi) none of the parties listed in the paragraph headed “Qualification of experts” of this Appendix: (a) is interested legally or beneficially in any of our Shares or any shares in any member of our Group; or (b) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

- (vii) none of our Directors or their respective close associates (as defined under the Listing Rules) or any Shareholders of our Company, who to the knowledge of our Directors, holding more than 5% of our issued share capital has any interest in our five largest suppliers or our five largest clients. For further details, please refer to the paragraphs headed “Our Clients — Largest Clients” and “Suppliers and Procurement — Our Suppliers” under the section headed “Business” in this prospectus.

## D. OTHER INFORMATION

### 1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 4 December 2020.

#### *(a) Purpose*

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognize and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) 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.

#### *(b) Who may join*

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 as the Board may determine at an exercise price determined in accordance with paragraph (f) below:

- (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.

*(c) Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favour of our Company of HK\$1 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. 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 for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting 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.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the Option is thereby exercised and the number of Shares in respect of which is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for our Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of our Shares so allotted.

The exercise of any option shall be subject to our Shareholders in a general meeting approving any necessary increase in the authorized share capital of our Company.

*(d) Maximum number of Shares*

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 completion of the Capitalization Issue and Global Offering (assuming the Over-allotment Option is not exercised), 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 circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, and/or other information required under the Listing Rules.

Notwithstanding the foregoing and subject to paragraph (r) below, 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 maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of consolidation, capitalization issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

*(e) Maximum number of options to any one individual*

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:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), and/or other information required under the Listing Rules; and
- (ii) 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 numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the exercise price of our Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:
  - (aa) the Eligible Participant's name, address and occupation;
  - (bb) the date on which an option is offered in writing to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
  - (cc) the date upon which an offer for an option must be accepted;
  - (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
  - (ee) the number of Shares in respect of which the option is offered;
  - (ff) the exercise price and the manner of payment of such price for our Shares on and in consequence of the exercise of the option;
  - (gg) the date of the expiry of the option in respect of that option; and
  - (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).



***(f) Price of Shares***

Subject to any adjustments made as described in paragraph (r) below, 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 higher 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.

***(g) Granting options to connected persons***

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. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant which shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

***(h) Restrictions on the times of grant of options***

A grant of options may not be made after inside information has come to the knowledge of our Company until it has been published pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of results for (i) any year or half-year period in accordance with the Listing Rules, and (ii) where the Company has elected to publish them, any quarterly or other interim period, and ending on the date of actual publication of the results announcement, and
- (iii) where an option is granted to a Director:
  - (aa) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

- (bb) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

***(i) Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option held by him or any other relating to the grant of an option made to him or attempt to do so (save that the grantee may nominate a nominee in whose name our Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

***(j) Time of exercise of option and duration of the Share Option Scheme***

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.

***(k) Performance target***

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

***(l) Rights on ceasing employment or death***

In the event of the grantee of an option ceasing to be an Eligible Participant for any reason other than on his/her death, ill-health, injury, disability or the termination of his/her relationship with our Company and/or any of our subsidiaries on the grounds specified in paragraph (m), the grantee may exercise the option up to his/her entitlement at the date of cessation of being an Eligible Participant (to the extent not already exercised) within the period of one month (or such longer period as the Board may determine) following the date of such cessation (which date shall be, in relation to a grantee who is an Eligible Participant by reason of his/her employment with our Company or any of our subsidiaries, the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not).

In the case of the grantee of an option ceasing to be an Eligible Participant by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his/her relationship with our Company and/or any of our subsidiaries under paragraph (m) has occurred, the grantee or his/her personal representative(s) shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the option in full (to the extent not already exercised).

***(m) Rights on dismissal***

In the event of the grantee of an option ceasing to be an Eligible Participant by reason of the termination of his/her relationship with our Company and/or any of our subsidiaries on any one or more of the following grounds:

- (i) that he/she has been guilty of serious misconduct;
- (ii) that he/she has been convicted of any criminal offence involving his/her integrity or honesty or in relation to an employee of our Company and/or any of our subsidiaries;
- (iii) that he/she has become insolvent, bankrupt or has made arrangements or compositions with his/her creditors generally; or
- (iv) on any other ground as determined by the Board that would warrant the termination of his/her employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary,

his/her option will lapse automatically and not be exercisable (to the extent not already exercised) from the date of cessation of being an Eligible Participant.

***(n) Rights on takeover***

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror (as defined in the Takeovers Code)), our Company shall use its best endeavours to procure that such offer is extended to all the grantees (on the same terms mutatis mutandis, and assuming that they shall become, by the exercise in full of the options granted to them, Shareholders). If such offer becomes or is declared unconditional, the grantee of an option (or his/her legal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

***(o) Rights on winding-up***

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or in the case of the death of the grantee, his/her legal personal representative(s)) shall be entitled to exercise all or any of his/her options at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for our Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

***(p) Rights on compromise or arrangement between our Company and its members or creditors***

If a compromise or arrangement between our Company and its members and/or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the Companies Law, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members and/or creditors summoning the meeting to consider such a compromise or arrangement and thereupon each grantee shall be entitled to exercise all or any of his/her options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

The Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

***(q) Ranking of Shares***

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (such other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will subject to all the provisions of the Articles and rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue. Shares issued on the exercise of an option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

***(r) Effect of alterations to capital***

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, open offer (if there is a price dilutive element), consolidation, sub-division or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any options so far as unexercised and/or the exercise price per Share of each outstanding option as the auditors of our Company or an approved independent financial adviser shall (other than in respect of an adjustment made on a capitalization issue) certify in writing to the Board to be in their/his/her opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and/or such other requirements prescribed under the Listing Rules from time to time and the note thereto. The capacity of the auditors of our Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an option is entitled to subscribe had he exercised all the options held by him before such alteration and the aggregate exercise price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

***(s) Expiry of option***

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n), (o) or (p);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his or her relationship with our Company and/or any of its subsidiaries on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or in relation to an employee of our Group, or has been insolvent, bankrupt or has made arrangements or compositions with his/her creditors generally or any other ground as determined by the Board that would warrant the termination of his or her employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.



***(t) Alteration of the Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; or
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme),

shall first be approved by our Shareholders in general meeting provided that the amended terms of the Share Option Scheme or the options shall remain in compliance with Chapter 17 of the Listing Rules, and if the proposed alteration shall adversely affect the terms of issue of any option granted or agreed to be granted prior to the date of alteration, or reduce the proportion of equity capital to which any person was entitled pursuant to such option prior to such alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme.

***(u) Cancellation of options***

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any Option is cancelled pursuant to paragraph (i).

***(v) Termination of the Share Option Scheme***

Our Company may by resolution in general meeting or of the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

***(w) Administration of the Board***

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

***(x) Condition of the Share Option Scheme***

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Joint Global Coordinators acting for and on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in our Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within six calendar months from the adoption date of the Share Option Scheme:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

***(y) Disclosure in annual and interim reports***

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

***(z) Present status of the Share Option Scheme***

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

## 2. Estate duty, tax and other indemnities

Our Controlling Shareholders have entered into the Deed of Indemnity referred to in the paragraph headed “B. Further Information about our Business — 1. Summary of our material contracts” in this Appendix in favour of our Company, for itself and as trustee for its subsidiaries, to provide indemnities in respect of, among other matters:

- (a) any duty which is or becomes payable by the members of the Group or any of them under the Estate Duty Ordinance or the equivalent laws and regulations of any other jurisdictions outside Hong Kong on or before the effective date (“**Effective Date**”) on which the conditions stated in the paragraph headed “Conditions of the Hong Kong Public Offering” under the section headed “Structure of the Global Offering” in the Prospectus are fulfilled;
- (b) taxation and taxation claim, together with all costs (including all legal costs), expenses, all interests, penalties or other liabilities which any of the members of the Group may incur in connection with (i) the investigation, assessment, contesting or any claim under the Deed of Indemnity; (ii) the settlement of any claim under the Deed of Indemnity; (iii) any legal proceedings in which any of the members of the Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any of the members of the Group; or (iv) the enforcement of any such settlement or judgment referred to in (ii) and (iii) above, falling on any of the members of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Effective Date or any event or transaction on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation or taxation claim is chargeable against or attributable to any other person, firm or company; and
- (c) any damages, losses, liabilities, claims, fines, penalties, payments, suits settlement payment, fees, orders, expenses and costs, or loss of profits, benefits which are or become payable or suffered by any member of the Group directly or indirectly as a result of and in connection with any and all of the non-compliances with the applicable laws, rules or regulations by members of the Group on or before the Effective Date or as a result of or in relation to all litigations, arbitration, claims (including counter-claims), actions, complaints, demands, judgements and/or legal proceedings by or against any of the members of the Group which was issued, accrued and/or arising from any act of any member of the Group at any time on or before the Effective Date, including but not limited to the non-compliances, legal proceedings and claims as disclosed in the section headed “Business — Legal Proceedings and Compliance” in this Prospectus and in particular the failure to make contributions to the social insurance and housing provident fund for the employees of the companies in accordance with the Law on Social Insurance of PRC and the Regulations on the Administration of Housing Provident Fund.

The Controlling Shareholders will, however, not be liable in respect of any taxation referred to in paragraph (a) and (b) above to the extent that, among others:

- (1) provision or reserve has been made for such taxation in the audited accounts of any of the members of the Group for the three years ended 31 December 2019 and six months ended 30 June 2020 which arises in the ordinary course of business of the Group as described in the section entitled “Business” in the Prospectus; or
- (2) such taxation claim or liability falls on any of the members of the Group in respect of its accounting period commencing on or after 1 January 2017 unless such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, the Controlling Shareholders, the members of the Group or any of them (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets, before the Effective Date; and
- (3) such taxation claim or liability arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations, or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or the taxation authority of the PRC or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect.

### **3. Litigation**

As of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

### **4. Sole Sponsor**

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and the permission to deal in, the Shares in issue and the Shares to be issued or sold as mentioned in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-Allotment Option). The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The fees payable to the Sole Sponsor in respect of its services as sponsor for the Listing are approximately HK\$4.95 million and are payable by us.

**5. Compliance adviser**

In accordance with the requirements of the Listing Rules, our Company has appointed Innovax Capital as our compliance adviser upon Listing. See the section headed “Directors and Senior Management — Compliance Adviser” in this prospectus.

**6. Preliminary Expenses**

Save as disclosed in the section headed “Financial Information — Listing Expenses”, we have not incurred any material preliminary expenses.

**7. Promoter**

Our Company has no promoter for the purposes of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

**8. Taxation of holders of Shares*****(a) Hong Kong***

The sale, purchase and transfer of shares registered with our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the value of the shares being sold or transferred. Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

***(b) Cayman Islands***

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of shares in the Company.

***(c) Consultation with professional advisers***

Potential investors in the Global Offering are urged to consult their professional tax advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our shares (or exercising rights attached to them). None of our Company, our Directors or the other parties involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our shares.

**9. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by Rule 19.36(5) of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**10. Binding effect**

This prospectus shall have effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**11. Qualification of experts**

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who gave opinions or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Innovax Capital Limited	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Jingtian & Gongcheng	Legal advisers to our Company as to PRC laws
Harney Westwood & Riegels	Legal advisers to our Company as to Cayman Islands laws
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

**12. Consent of experts**

Each of the experts as referred to in the paragraph headed “Qualification of experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or legal opinion (as the case may be) and references to their names included in the form and context in which it respectively appears.

None of experts named above has any shareholders' interests in our Company or any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for interests in our Company or any member of our Group.

### **13. No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2020 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

### **14. Share register**

The principal register of our Company will be maintained in the Cayman Islands by Harneys Fiduciary (Cayman) Limited and a branch share register will be maintained in Hong Kong by Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with, and registered by, Tricor Investor Services Limited and may not be lodged in the Cayman Islands.

### **15. Miscellaneous**

Save as disclosed in this prospectus:

- (a) none of our Directors nor any of the parties listed in the paragraph headed "D. Other Information — 12. Consents of experts" in this Appendix has any direct or indirect interest in the promotion of our Company or any of the subsidiaries, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to our Company or any of the subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of the subsidiaries;
- (b) none of our Directors nor any of the parties listed in the paragraph headed "D. Other information — 12. Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business;
- (c) none of the equity and debt securities of our Company or any of our subsidiaries is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought from any other stock exchange;
- (d) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;



- (e) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (f) our Company has not issued or agreed to issue any founder, management or deferred shares;
- (g) our Company has no outstanding convertible debt securities or debentures;
- (h) within the two years preceding the date of this prospectus, (i) no commission, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and (ii) our Company or any of our subsidiaries has not issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
- (i) within the two years preceding the date of this prospectus, no commission has been paid or payable (except for commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in or debentures of our Company;
- (j) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (k) there is no arrangement under which future dividends are waived or agreed to be waived;
- (l) there are no procedures for the exercise of any right of pre-emption or the transfer of subscription rights;
- (m) as at the date of this prospectus, there is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong; and
- (n) the English text of this prospectus shall prevail over the Chinese text.

**A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 12. Consent of experts” in Appendix V to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of material contracts” in Appendix V in this prospectus.

**B. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of William Ji & Co. LLP (in Association with Tian Yuan Law Firm Hong Kong Office) at Suites 3304–3309, 33/F, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in “Accountants’ Report” in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for the Track Record Period;
- (d) the report on unaudited pro forma financial information from Ernst & Young, the text of which is set out in “Unaudited pro forma Financial Information” in Appendix II to this prospectus;
- (e) the letter relating to the profit forecast from our Directors, the text of which is set out in “Profit Forecast” in Appendix III to this prospectus;
- (f) the letter relating to the profit forecast from Ernst & Young, the text of which is set out in “Profit Forecast” in Appendix III to this prospectus;
- (g) the letter relating to the profit forecast from the Sole Sponsor, the text of which is set out in “Profit Forecast” in Appendix III to this prospectus;

- (h) the letter of advice prepared by Harney Westwood & Riegels summarizing certain aspects of the Cayman Companies Act as referred to in the section headed “Summary of the Constitution of our Company and Cayman Companies Act” in Appendix IV in this prospectus;
- (i) the Cayman Companies Act;
- (j) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information About Our Business — 1. Summary of material contracts” in Appendix V to this prospectus;
- (k) the service contracts and letters of appointment, referred to in the section headed “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Particulars of service contracts” in Appendix V to this prospectus;
- (l) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 12. Consent of experts” in Appendix V to this prospectus;
- (m) the legal opinion prepared by Jingtian & Gongcheng, our PRC Legal Advisers in respect to the compliance of applicable laws and regulations in respect of certain aspects of our Group in the PRC;
- (n) the industry report prepared by Frost & Sullivan; and
- (o) the rules of the Share Option Scheme.



**Raily Aesthetic Medicine International Holdings Limited**

**瑞麗醫美國際控股有限公司**