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Post Hearing Information Pack of

# Yonghe Medical Group Co., Ltd.
# 雍禾醫療集團有限公司

(the "**Company**")

*(Incorporated in the Cayman Islands with limited liability)*

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# Yonghe Medical Group Co., Ltd.
# 雍禾醫療集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

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| | | |
|---|---|---|
| **Number of [REDACTED] under the [REDACTED]** | **:** | **[REDACTED] Shares (subject to the [REDACTED])** |
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| **Maximum [REDACTED]** | **:** | **HK$[REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)** |
| **Nominal value** | **:** | **US$0.0000025 per Share** |
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# IMPORTANT

[**REDACTED**]

# IMPORTANT

[**REDACTED**]

# EXPECTED TIMETABLE[1]

[**REDACTED**]

# EXPECTED TIMETABLE[1]

[**REDACTED**]

# EXPECTED TIMETABLE[1]

[**REDACTED**]

# EXPECTED TIMETABLE[1]

[**REDACTED**]

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*This summary aims to give you an overview of the information contained in this document and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial information appearing elsewhere in this document. As this is a summary, it does not contain all the information that may be important to you and we urge you to read the entire document carefully before making your investment decision. There are risks associated with any investment. Some of the particular risks in investing in the* [**REDACTED**] *are set out in the section headed "Risk Factors" in this document. You should read that section carefully before you decide to invest in the* [**REDACTED**].

## OVERVIEW

We are the leading medical group in China specialized in providing hair-related healthcare services in terms of total revenue for 2020. We offer one-stop hair-related healthcare services covering hair transplant, medical hair care, and routine hair restoration and other ancillary services. According to Frost & Sullivan, we are the largest player in China's hair transplant service market with a market share of 10.5% and medical hair care service market with a market share of 4.3%, in terms of total revenue derived from the relevant services in 2020. Among all hair-related healthcare service providers in China, we ranked first in terms of the number of registered physicians at the end of 2020, the number of clinics in operation at the end of 2020, and the number of hair transplant patients for 2020, according to Frost & Sullivan. We adopt a standardized and scalable business model to operate a hair transplant chain consisting of mostly self-operated clinics. As of the Latest Practicable Date, we operated 53 clinics in 52 cities nationwide, making us the largest and most extensive hair transplant clinic chain in China, according to Frost & Sullivan. During the Track Record Period, we opened 29 new clinics in mainland China and acquired one clinic in Hong Kong, achieving the fastest growth among all hair transplant clinic chains in China and further widening our lead over the runners-up.

Through decades of dedication and commitment to China's hair-related healthcare industry, we have made *Yonghe Hair Transplant* (雍禾植髮) a well-known and highly trusted brand among its peers, and have promoted many major developments and advancements in the industry. In 2010, we became the first ISO-certified hair transplant service provider in China, and by the end of 2017, we had successfully opened 22 hair transplant clinics across China. In 2017, we obtained investment from CITIC PE, who helped us enhance our corporate governance and further expand our business. In 2017, we acquired the mainland China business of *Svenson*, a globally renowned brand originated from London that had over six decades of experience in offering hair restoration products and services. From 2018 onwards, leveraging our strong medical service capabilities and *Svenson*'s extensive experience in hair restoration, we strategically took inroads into the medical hair care service sector and successfully established a *Svenson Medical Hair Care Center* (史雲遜醫學健髮中心) in each of our clinics in mainland China under a "shop-in-shop" model. During the Track Record Period, we derived a majority of our revenue from providing hair transplant services, and a substantial and increasing portion of our revenue from providing medical hair care services. We also expanded our footprint outside the mainland China in May 2021 by acquiring the Hong Kong business of *Nu/Hart Hair* (顯赫植髮), a renowned hair transplant service provider originated from the U.S. In addition, through our cooperation with prestigious universities such as Sun Yat-sen University, we are blazing a trail toward collaborative research and development with academia and showing the way forward for the hair-related healthcare service industry. We believe that by breaking those new grounds, we are enhancing our core competitiveness and further strengthening our leading position in the industry.

We have been persistently specializing in the hair-related healthcare service market. Driven by the soaring prevalence of hair problems in China, the increasing disposable income *per capita* of Chinese residents and elevated self-awareness of appearance, China's hair-related healthcare service market is expanding rapidly. According to Frost & Sullivan, the size of the hair-related healthcare service market in China reached RMB18.4 billion in 2020, and is projected to grow to RMB138.1 billion in 2030 with a CAGR of 22.3%. China's hair-related healthcare service market consists of two main parts — the hair transplant service market and the medical hair care service market. Hair transplant is a surgical treatment for hair loss, i.e., alopecia. According to Frost & Sullivan, approximately 250.9 million people suffered from alopecia in China in 2020. Medical hair care integrates various non-surgical treatment methods, such as medical devices and medications, and is able to address the diversified needs of a larger patient pool with various scalp and hair problems. According to Frost & Sullivan, China's hair transplant service market reached RMB13.4 billion in 2020, and is projected to grow to RMB75.6 billion in 2030 with a CAGR of 18.9%. China's medical hair care service market is still at an early stage of development with a market size of only RMB5.0 billion in 2020, but is believed to harbor huge growth potential and is expected to grow to RMB62.5 billion in 2030 at a CAGR of 28.7%. We are the largest service provider in each of hair transplant service market and the medical hair care service market in China by revenue derived from the relevant services in 2020, with a leading market share of approximately 10.5% and 4.3%, respectively, according to Frost & Sullivan. With our industry-leading prowess in medical examination and diagnosis, and continuing innovation in product and service offerings, we believe we are well-positioned to capture the huge growth potential of China's hair-related healthcare service market.

Our in-house professional medical staff is at the core of our hair-related healthcare services. Leveraging our standardized and proven physician training system, as of the Latest Practicable Date, we had built a professional medical team consisting of 1,233 members, including 246 registered physicians and 919 nurses. By standardizing our diagnostic and therapeutic service system, we are able to provide consistent, high-quality medical services and achieve rapid expansion of clinics without compromising the quality of service.

Leveraging our standardized and highly scalable business model, we have achieved industry-leading operational capabilities, enabling us to effectively control costs, boost operational efficiency and improve profitability. During the Track Record Period, our gross profit margin remained largely stable, while our administrative expenses as a percentage of our total revenue continued to decrease.

We have built a one-stop shop for medical hair care services to meet the medical demands of a wide rage of patients. We continue to improve our diagnostic, therapeutic, and research and development capabilities by collaborating with experts from Class IIIA hospitals and renowned academic institutions. In addition, in order to continuously improve medical service to patients, to stay ahead of the technological curve and to propel business development, we have always been actively promoting and adopting new technologies in our business, including data usage and analysis, intelligent services and online services. We believe that such strengths have reinforced our industry-leading position and will sustain our growth momentum into the future.

We experienced significant growth during the Track Record Period. Our total revenue increased by 31.1% from RMB934.3 million in 2018 to RMB1.22 billion in 2019, and grew by another 33.8% to RMB1.64 billion in 2020. For the six months ended June 30, 2021, our revenue amounted to RMB1.05 billion, representing an increase of 75.1% as compared to the corresponding period in 2020. While our revenue was generated mainly from rendering hair transplant services, revenue from medical hair care

services grew rapidly over the same period. We recorded a net profit of RMB53.5 million in 2018, RMB35.6 million in 2019, RMB163.3 million in 2020 and RMB40.4 million in the six months ended June 30, 2021. The total number of patients receiving our treatments increased by 41.7% from 35,177 in 2018 to 49,851 in 2019, and further increased by 82.7% to 91,069 in 2020. In the six months ended June 30, 2021, the total number of patients receiving our treatments reached 68,112. Our clinics' average initial breakeven period is approximately three months and their average cash payback period is approximately 14 months, better than the average for private medical institutions in China, according to Frost & Sullivan. Further, our overall same-store sales grew by 18.4% between 2018 and 2019, by 20.0% between 2019 and 2020, and by 52.6% between the six months ended June 30, 2021 and the corresponding period in 2020.

## OUR COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiated us from our competitors: (1) China's largest hair transplant service provider; (2) nationwide footprint in major metropolitan centers with great growth potential; (3) industry-leading operational and medical service capabilities; (4) one-stop-shop hair-related healthcare service system rooted in tenacious innovation in product and service offerings; (5) industry-leading technology; and (6) visionary and seasoned management and strong shareholder support.

## OUR STRATEGIES

Our mission is to become a world-leading one-stop shop for hair-related healthcare services. We plan to implement the following strategies to achieve that goal: (1) continue our network expansion and upgrade, and strengthen talent development and recruitment; (2) promote further innovations in product and service offerings to expand the one-stop-shop system for hair-related healthcare service; (3) continue to adopt new technologies; and (4) integrate industry resources and promote multi-brand strategy.

## OUR CLINIC NETWORK

We own and operate the largest and most widely distributed hair transplant clinic chain in China, according to Frost & Sullivan. As of the Latest Practicable Date, we had 53 hair transplant clinics nationwide, 52 of which were self-operated and one was acquired from third parties. We experienced rapid expansion in recent years. The following table sets out the number of our clinics during the Track Record Period.

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Number of clinics in operation at the beginning of the period | 22 | 30 | 37 | 48 |
| Number of new clinics opened during the period | 8 | 7 | 11 | 3 |
| Number of clinics acquired during the period | – | – | – | 1 |
| Number of clinics in operation at the end of the period | 30 | 37 | 48 | 52 |

**Geographic Locations**

As of the Latest Practicable Date, our 53 hair transplant clinics covered 52 cities in 26 provinces, autonomous regions and centrally-administered municipalities (collectively, "**provinces**") across mainland China and in Hong Kong. We typically enter a province by setting up our clinics in the provincial capital first. During the Track Record Period, we primarily focused on establishing our market presence in regions with huge hair transplant demands and high *per capita* income. We are striving to achieve regional concentration strategy by opening clinics in more cities in such regions. The following table sets forth the breakdown of the number and revenue of our clinics in operation by geographical regions for the periods indicated:

| | As of/for the Year Ended December 31, | | | | | | As of/for the Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Number | *Revenue (RMB'000)* | Number | *Revenue (RMB'000)* | Number | *Revenue (RMB'000)* | Number | *Revenue (RMB'000)* |
| Eastern China[(1)] | 10 | 259,128 | 15 | 369,918 | 21 | 563,896 | 23 | 363,024 |
| Southern China [(2)] | 4 | 174,960 | 5 | 261,075 | 10 | 348,583 | 10 | 249,233 |
| Northern China[(3)] | 4 | 191,221 | 4 | 208,752 | 4 | 234,407 | 4 | 128,929 |
| Southwestern China[(4)] | 4 | 97,950 | 4 | 121,176 | 4 | 184,969 | 4 | 100,996 |
| Central China [(5)] | 3 | 120,146 | 3 | 126,507 | 3 | 143,004 | 4 | 96,804 |
| Northwestern China[(6)] | 2 | 45,463 | 3 | 72,122 | 3 | 93,740 | 3 | 67,553 |
| Northeastern China[(7)] | 3 | 29,146 | 3 | 53,285 | 3 | 57,359 | 3 | 36,418 |
| Hong Kong[(8)] | – | – | – | – | – | – | 1 | 754 |
| **Total** | **30** | **918,014** | **37** | **1,212,835** | **48** | **1,625,958** | **52** | **1,043,711** |

*Notes:*

(1) Including Shanghai, Zhejiang, Jiangsu, Fujian, Jiangxi, An'hui and Shandong.
(2) Including Guangdong and Guangxi.
(3) Including Beijing, Tianjin, Hebei and Shanxi.
(4) Including Sichuan, Guizhou, Yunnan and Chongqing.
(5) Including Henan, Hubei and Hunan.
(6) Including Shaanxi, Gansu and Xinjiang.
(7) Including Heilongjiang and Liaoning.
(8) Including one acquired clinic, Nu/Hart Hair, in Hong Kong.

**Development Stages**

Our clinics can be categorized into three groups based on their respective opening date, including mature-stage clinics (i.e., clinics that have been established for more than three years), developing-stage clinics (i.e., clinics that have been established for one to three years), and newly-established clinics (i.e., clinics that have been established for less than one year). For acquired clinics, we regard the date when their financial position and results of operations are consolidated into our Group as their respective opening date. During the Track Record Period, we only acquired one clinic in May 2021. As of the Latest Practicable Date, we had 29 mature-stage clinics, 18 developing-stage clinics and six newly-established clinics (including the acquired clinic).

The following table sets forth the breakdown of the number and revenue of our clinics by development stage for the periods indicated:

| | As of/for the Year Ended December 31, | | | | | | As of/for the Six Months Ended June 30, 2021 | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | | |
| | *Number* | *Revenue (RMB'000)* | *Number* | *Revenue (RMB'000)* | *Number* | *Revenue (RMB'000)* | *Number* | *Revenue (RMB'000)* |
| Mature-stage clinics | 10 | 555,038 | 16 | 831,989 | 22 | 1,196,970 | 24 | 722,954 |
| Developing-stage clinics | 12 | 300,766 | 14 | 338,917 | 15 | 328,511 | 17 | 234,541 |
| Newly-established clinics | 8 | 62,210 | 7 | 41,929 | 11 | 100,477 | 11 | 86,216 |
| – Acquired clinic | – | – | – | – | – | – | 1 | 754 |
| **Total** | **30** | **918,014** | **37** | **1,212,835** | **48** | **1,625,958** | **52** | **1,043,711** |

**Performance of our Clinics**

The following table sets forth the details of our same store sales and year-over-year same store sales growth of our clinics by development stage during the Track Record Period, which are two important metrics that our management tracks in evaluating our clinic network's performance. We define our same stores to be those clinics that were in operation throughout the periods under comparison. For the avoidance of doubt, if a clinic was a newly-established clinic in 2018 but was a developing-stage clinic in 2019, it is counted as a developing-stage clinic for purposes of the following tables; similarly, if a clinic was a developing-stage clinic in 2018 but was a mature-stage clinic in 2019, it is counted as a

mature-stage clinic for purposes of the following tables. Same store sales figures provide a meaningful period-to-period comparison of the performance of our existing clinics that have been operating for a year or more. Since we experienced rapid network expansion during the Track Record Period, both the opening of new clinics and the improved operation of our established clinics had contributed to our growth for the same periods. The comparison of same store sales over a period excludes revenue growth attributable to the increase in the number of clinics, and demonstrates our growth from improved operations at existing clinics. Further, by breaking down our established clinics into mature-stage clinics and developing-stage clinics, we are able to further assess the performance of our clinics at different stages.

We experienced substantial same store sales growth during the Track Record Period. Particularly, for our mature-stage clinics, we still maintained a same store sales growth rate over 18% during the Track Record Period. The table below sets forth the information related to our same store sales during the periods indicated.

| | Year Ended December 31, | | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2019** | **2020** | **2020** | **2021** |
| **Number of Same Stores** | | | | | | |
| Mature-stage clinics | 16 | | 22 | | 24 | |
| Developing-stage clinics | 6 | | 8 | | 10 | |
| Newly-established clinics | 0 | | 0 | | 0 | |
| **Total** | **22** | | **30** | | **34** | |
| **Same store sales** *(in thousands of RMB)* | | | | | | |
| Mature-stage clinics | 701,423 | 831,989 | 1,013,635 | 1,196,970 | 486,452 | 722,954 |
| Developing-stage clinics | 154,381 | 181,646 | 157,271 | 208,654 | 79,581 | 140,659 |
| **Total** | **855,804** | **1,013,635** | **1,170,906** | **1,405,624** | **566,033** | **863,613** |

## OUR BUSINESS

We are the leading medical group in China specialized in providing hair-related healthcare services in terms of total revenue for 2020. During the Track Record Period, we focused on providing hair transplant services while constantly expanding the boundaries of our business. Since 2019, we started to provide medical hair care services by establishing a *Svenson Medical Hair Care Center* (史雲遜醫學健髮中心) in each of our hair transplant clinics in mainland China under a "shop-in-shop" model. Our *Svenson Medical Hair Care Centers* provide patients with non-surgical, effective and affordable medical solutions on various scalp and hair problems, including but not limited to hair loss, soft hair, itching scalp and oily scalp. The following table sets forth the components of our revenue by business line for the period indicated.

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Hair transplant services | 918,014 | 98.3 | 1,197,775 | 97.8 | 1,412,744 | 86.2 | 567,225 | 94.3 | 789,522 | 75.0 |
| Medical hair care services | – | – | 15,060 | 1.2 | 213,214 | 13.0 | 30,687 | 5.1 | 254,189 | 24.1 |
| Others[(1)] | 16,312 | 1.7 | 11,642 | 1.0 | 12,339 | 0.8 | 3,651 | 0.6 | 9,689 | 0.9 |
| **Total** | **934,326** | **100.0** | **1,224,477** | **100.0** | **1,638,297** | **100.0** | **601,563** | **100.0** | **1,053,400** | **100.0** |

*Notes:*

(1) Others mainly include revenue from *Svenson Hair Care Centers* (史雲遜健髮中心) we acquired in December 2017. These *Svenson Hair Care Centers* are not medical institutions and primarily engaged in providing routine hair restoration products (such as anti-hair loss shampoo and head massager) and services (such as scalp cleaning and massaging) without using medicines or medical devices.

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

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | 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* | *%* |
| Hair transplant services | 703,767 | 76.7 | 886,700 | 74.0 | 1,061,144 | 75.1 | 417,519 | 73.6 | 572,306 | 72.5 |
| Medical hair care services[(1)] | – | – | 4,816 | 32.0 | 157,305 | 73.8 | 17,781 | 57.9 | 197,817 | 77.8 |
| Others[(2)] | (1,648) | (10.1) | (2,418) | (20.8) | 3,181 | 25.8 | 251 | 6.9 | 5,294 | 54.6 |
| **Total gross profit/overall gross profit margin** | **702,119** | **75.2** | **889,098** | **72.6** | **1,221,630** | **74.6** | **435,551** | **72.4** | **775,417** | **73.6** |

*Notes:*

(1) Our gross profit margin of our medical hair care services increased significantly from 2019 to 2020, primarily because we started to ramp up our business in medical hair care sector and formed a scale effect corresponding with the growth of our hair transplant services. For details, see "Financial Information — Results of Operations — Year Ended December 31, 2020 Compared with Year Ended December 31, 2019 — Gross Profit and Gross Profit Margin — Medical Hair Care Services."

(2) We recorded gross losses in other services in 2018 and 2019, primarily because we incurred more costs as compared to revenue at initial stage of *Svenson Hair Care Centers* (史雲遜健髮中心) and its business integration. For details, see "Financial Information — Description of Selected Components of Consolidated Statements of Comprehensive Income — Gross Profit and Gross Profit Margin."

## LEGAL PROCEEDINGS AND COMPLIANCE

### Legal Proceedings

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material and adverse effect on our business, financial condition or results of operations. For details, see "Business — Legal Proceedings and Compliance" in this document.

### Compliance

During the Track Record Period and up to the Latest Practicable Date, we experienced certain non-compliance incidents, including performing hair plant surgeries without the supervision of a qualified physician, failure to obtain, or to promptly update, certain licenses and permits necessary for the operation of some of our clinics (e.g., the medical institution practicing licenses, the fire safety procedures, the water discharge licenses, etc.), and non-compliances relating to the Advertisement Law of the PRC. Although such non-compliance incidents, individually or in the aggregate, did not have any material negative impact on our business, financial position or results of operation, our Directors treat each such non-compliance incidents seriously. We have taken prompt remedial and/or rectification measures as soon as we identified such non-compliances, and have devoted significant efforts and resources to rectify each of them. As of the Latest Practicable Date, we had fully rectified substantially all the non-compliance incidents identified during the Track Record Period. For example, as of the Latest Practicable Date, we had designed a set of comprehensive standard operation procedures and had adopted a rigorous monitoring system to ensure all the hair transplant surgeries performed in our clinics are conducted under the supervision of qualified physicians, and to ensure the advertisements we post are in compliance with applicable laws and regulations; we had obtained and updated all the business licenses and medical institution practicing licenses for all our clinics; for substantially all our clinics, we had obtained the water discharge licenses we are required to obtain and had completed the necessary fire safety procedures (except for a few clinics for which the relevant licenses/procedures were not yet obtained/completed for reasons outside of our control, and we had either ceased the operation of such clinics and relocated them to new locations in the same cities, or were in the process of obtaining/completing the relevant licenses/procedures and currently expect to fully rectify the non-compliances in the first quarter of 2022 at the latest). In addition, we have also adopted enhanced internal control measures to prevent the recurrence of similar non-compliances. See "Business — Licenses, Permits, Approvals and Compliance" for more information about the non-compliance incidents and the rectification measures we took in relation thereto, and see "Business — Internal Control and Risk Management" for more information about the enhanced internal control measures we adopted to prevent the recurrence of the non-compliances and their implementation status. We undertake to continue to use our reasonable best efforts to rectify our historical non-compliances and to prevent similar non-compliances from recurring, and expect to incur additional costs as a result of our such efforts. See "Risk Factors — Risks Relating to Our Business" for the various risks in this regard.

## OUR CUSTOMERS

During the Track Record Period, substantially all of our customers consisted of individual customers, and none of these individual customers accounted for more than 5% of our total revenue. We have not entered into any long-term agreements with our individual customers. We generally do not extend any credit periods to our customers.

To the best knowledge and belief of our Directors, our five largest customers during the Track Record Period were Independent Third Parties. None of our Directors or their close associates or any of our Shareholders (who, to the best knowledge of our Directors, beneficially own more than 5% of our Share capital) had any interest in any of our five largest customers during the Track Record Period.

## OUR SUPPLIERS

During the Track Record Period, our suppliers primarily included providers of advertising services, IT services, pharmaceuticals, surgical consumables and hair care products. We have maintained a list of suppliers approved by our senior management team.

Our headquarters is in charge of our overall procurement strategy. Pharmaceuticals, surgical consumables, hair care products and other products are centrally procured by the headquarters. Most procurements have gone through a tender or price comparison process except for a a few local procurements in small scale. For any given type of raw materials or supplies, we typically have multiple suppliers in order to obtain competitive prices from suppliers, maintain sourcing stability and avoid over-reliance risk. During the Track Record Period, we did not experience any interruption in our supplies, early termination of supply agreements, or failure to secure sufficient supplies that had any material adverse impact on our business or results of operations. Our suppliers generally offer us a credit term of 30 to 90 days. We typically settle trade payable obligations with respect to our suppliers through bank transfers.

For each of 2018, 2019, 2020 and the six months ended June 30, 2021, purchases from our five largest suppliers amounted to RMB186.4 million, RMB280.6 million, RMB278.7 million and RMB217.4 million, respectively, representing approximately 23%, 25%, 20% and 23%, respectively, of our total purchases for the respective periods. For each of 2018, 2019, 2020 and the six months ended June 30, 2021, purchases from our largest supplier amounted to RMB119.2 million, RMB168.9 million, RMB114.9 million and RMB71.3 million, respectively, representing approximately 15%, 15%, 8% and 7%, respectively, of our total purchases for the respective periods.

All of our top five largest suppliers are Independent Third Parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our top five largest suppliers required to be disclosed under the Listing Rules.

## PRICING

Pricing policies are determined by our headquarters based on cost and market positioning. Our headquarters has adopted a uniform pricing guideline. We generally apply the same prices for our services across all clinics in our network. In line with industry practice, the local clinics from time to time offer discounts to customers for certain services they provide, as part of their marketing strategies. Managers of the local clinics have the discretion to determine the appropriate discount level for the relevant services, subject to a maximum level set by our headquarters, and prior approval from our headquarters needs to be obtained if they, in exceptional cases, intend to offer discounts exceeding the maximum level. During the Track Record Period, we recorded our revenue based on the actual prices we charged (i.e., after taking into consideration the discounts offered, if any), and did not record the exact amounts of the discounts offered by the clinics. For details of our revenue recognition, see "Financial Information — Significant Accounting Policies and Critical Judgments and Estimates — Significant Accounting Policies — Revenue Recognition."

Our internal pricing policy provides reference price points of various treatment options across our operations in the PRC. We set this price taking into account certain factors, such as experience of physicians, customer needs and operating costs. Our headquarters and regional managers strictly control and monitor clinical prices to ensure they have followed our pricing policies. We also closely monitor the pricing of our competitors in the same regions to evaluate our pricing.

## MARKETING

We believe that ultimately, our reputation has been, and will continue to be, built upon our service quality, and that the most effective marketing channel is the spontaneous word-of-mouth referral by our satisfied customers. Based on a survey conducted by Frost & Sullivan among over 1,100 patients who received our services, 29.7% of the surveyed patients first learned about us through recommendations from their friends or family members, and 88.5% of the surveyed patients indicated that they will recommend us to their friends and family members who are in need of hair transplant services.

In the meantime, we recognize the importance of long-term investment in brand building and consumer education. Therefore, in line with other players in the consumer medical service industry, particularly the hair-related healthcare industry, we made significant investments in promoting customer awareness of our brand and our services, and expect to continue to do so in the near future.

We have designed a comprehensive marketing strategy, and utilize a combination of online and offline channels to promote our brand and our services, using various forms of advertisements. In 2018, 2019, 2020 and the six months ended June 30, 2021, the marketing and promotion expenses we incurred amounted to RMB328.1 million, RMB458.1 million, RMB507.7 million and RMB389.4 million, respectively, among which the marketing and promotion expenses incurred through online channels (e.g., Tencent, Baidu, Bytedance, Kuaishou, Weibo, etc.) amounted to RMB177.6 million, RMB365.5 million, RMB382.0 million and RMB314.8 million, respectively, and the marketing and promotion expenses incurred through offline channels (e.g., subway stations, office buildings, shopping complexes and cinemas) amounted to RMB150.5 million, RMB92.7 million, RMB125.7 million and RMB74.7 million, respectively. The marketing and promotion expenses incurred through online channels can be further break down into those incurred for brand advertising and those incurred for performance-based advertising. In 2018, 2019, 2020 and the six months ended June 30, 2021, brand advertising accounted for 52.9%, 39.2%, 37.5% and 35.5% of the total marketing and promotion expenses incurred during such period, respectively. See "Business — Marketing" for more information about the different types of advertisements we use to promote our brand and services, and see "Financial Information — Description of Selected Components of Consolidated Statements of Comprehensive Income — Selling and Marketing Expenses" for our financial performance in relation to our selling and marketing efforts.

## INTELLECTUAL PROPERTY

We believe that intellectual property rights are critical to our continued success. We primarily rely on the applicable laws and regulations on trademarks, patents, trade secrets, and confidentiality agreements to protect our intellectual property rights. We have registered or applied for registration of certain trademarks, patents and domain names in the PRC and Hong Kong relating to the names and logos of our clinics. As of the Latest Practicable Date, we had (i) 186 trademarks registered in the PRC, two trademark registered in Hong Kong, one trademark registered in Macau and 69 pending trademark applications in the PRC; (ii) 24 patents registered in the PRC and six pending patent applications in the PRC; (iii) 17 computer softwares registered in the PRC; and (iv) 130 registered domain names in the

PRC. As we direct more resources towards research and development, we will continue to patent new techniques, technologies and other innovations.

As of the Latest Practicable Date, we were not aware of any material infringement or dispute regarding our intellectual property rights. We believe that we have taken reasonable measures to prevent infringement of our intellectual property rights. For more details, see "Appendix IV — Statutory and General Information — B. Further Information about the Business of the Company — 2. Our material intellectual property rights."

## COMPETITION

The hair transplant service market and medical hair care service market in the PRC have been competitive due to the abundance of medical institutions. According to Frost & Sullivan, we were the largest hair-related healthcare service provider in China in 2020 with a leading market share of approximately 10.5% in the hair transplant service market and approximately 4.3% in the medical hair care service market in terms of revenue from the relevant services, respectively. Our major competitors include other private hair transplant institutions, hair transplant departments of public hospitals and aesthetic service providers.

We believe our principal competitive advantages are our national coverage and footprint, brand reputation, operational and medical service capabilities, one-stop-shop hair-related healthcare service system, technology, strong management team and shareholder support. For more details of our market position and the competitive landscape of the markets, see "Industry Overview" in this document.

## SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables summarize our consolidated financial results during the Track Record Period and should be read in conjunction with the section headed "Financial Information" in this document and the accountant's report set out in Appendix I to this document, together with the accompanying notes.

## Summary of Consolidated Statements of Comprehensive Income

The following table sets forth a summary of our consolidated statements of comprehensive income for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* |
| **Revenue** | 934,326 | 100.0 | 1,224,477 | 100.0 | 1,638,297 | 100.0 | 601,563 | 100.0 | 1,053,400 | 100.0 |
| Cost of sales and services | (232,207) | (24.9) | (335,379) | (27.4) | (416,667) | (25.4) | (166,012) | (27.6) | (277,983) | (26.4) |
| **Gross profit** | 702,119 | 75.1 | 889,098 | 72.6 | 1,221,630 | 74.6 | 435,551 | 72.4 | 775,417 | 73.6 |
| Selling and marketing expenses | (463,681) | (49.6) | (650,262) | (53.1) | (779,611) | (47.6) | (246,631) | (41.0) | (577,947) | (54.9) |
| General and administrative expenses | (93,952) | (10.1) | (129,962) | (10.6) | (162,022) | (9.9) | (69,443) | (11.5) | (91,142) | (8.7) |
| Research and development expenses | (7,807) | (0.8) | (8,869) | (0.7) | (11,815) | (0.7) | (5,456) | (0.9) | (6,151) | (0.6) |
| Net impairment losses on financial assets | (1,633) | (0.2) | (34) | – | (487) | – | (279) | – | (376) | – |
| Other income | 933 | 0.1 | 1,443 | 0.1 | 6,304 | 0.4 | 1,354 | 0.2 | 2,133 | 0.2 |
| Other gains and losses, net | (7,021) | (0.8) | (3,373) | (0.3) | (7,738) | (0.5) | (5,766) | (1.0) | 7,211 | 0.7 |
| **Operating profit** | 128,958 | 13.8 | 98,041 | 8.0 | 266,261 | 16.3 | 109,330 | 18.2 | 109,145 | 10.4 |
| Finance costs – net | (17,669) | (1.9) | (26,518) | (2.2) | (35,347) | (2.2) | (15,789) | (2.6) | (20,270) | (1.9) |
| **Profit before income tax** | 111,289 | 11.9 | 71,523 | 5.8 | 230,914 | 14.1 | 93,541 | 15.5 | 88,875 | 8.4 |
| Income tax expense | (57,789) | (6.2) | (35,899) | (2.9) | (67,582) | (4.1) | (28,082) | (4.7) | (48,434) | (4.6) |
| **Profit for the year/period** | 53,500 | 5.7 | 35,624 | 2.9 | 163,332 | 10.0 | 65,459 | 10.9 | 40,441 | 3.8 |
| **Other comprehensive income** | | | | | | | | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | | | | | | | | |
| – Currency translation differences | – | – | – | – | – | – | – | – | 710 | 0.1 |
| *Items that will not be reclassified to profit or loss* | | | | | | | | | | |
| – Currency translation differences | – | – | – | – | – | – | – | – | (1,657) | (0.2) |
| **Total comprehensive income for the year/period** | 53,500 | 5.7 | 35,624 | 2.9 | 163,332 | 10.0 | 65,459 | 10.9 | 39,494 | 3.7 |
| **Profit and total comprehensive income for the year/period attributable to:** | | | | | | | | | | |
| Owners of the Company | 53,500 | 5.7 | 35,624 | 2.9 | 163,332 | 10.0 | 65,459 | 10.9 | 39,494 | 3.7 |

Our net profit fluctuated during the Track Record Period. Our net profit decreased by RMB17.9 million, from RMB53.5 million in 2018 to RMB35.6 million in 2019. Such decrease was primarily due to the increases in selling and marketing expenses and general and administrative expenses, both of which were generally in line with our business expansion. In particular, we had increased marketing and promotion expenses as we continue to focus on brand marketing and advertising to enhance our brand recognition. In addition, we have an increase in overall staff costs to support our business growth. Our net profit increased significantly by RMB127.7 million from RMB35.6 million in 2019 to RMB163.3 million in 2020, mainly due to an increase in gross profit, reflecting our business growth in all service types. In addition, our major costs and expenses, such as selling and marketing expenses and general and administrative expenses, had increased at a relatively slower rate during the relevant year. Furthermore, our net profit decreased from RMB65.5 million for the six months ended June 30, 2020 to RMB40.4 million for the six months ended June 30, 2021, primarily due to the increases in selling and marketing expenses and general and administrative expenses. The increase in selling and marketing expenses reflects the differences in timing of brand advertising placement. Furthermore, the increase in general and administrative expenses was primarily due to the [**REDACTED**] expenses incurred in relation to the [**REDACTED**]. In addition, we received certain rental subsidies during the COVID-19 pandemic in 2020, however, such subsidies were ceased in 2021 as compared with that of 2020. See "Financial Information — Results of Operations" for details.

**Cost Structure**

***Cost of Sales and Services***

Our cost of sales and services primarily consists of (i) staff costs, representing wages, benefits and bonuses for our business operation personnel, such as physicians and other medical staff; (ii) amortization and depreciation charges, which primarily include amortization and depreciation of lease and medical equipment mainly used to provide hair transplant services; (iii) cost of inventories and consumables, primarily including (a) hair care products and (b) sterilization supplies, reagent and pharmaceuticals used in providing hair transplant services; (iv) operation related expenses, which primarily include utilities and maintenance fee; and (v) others expenses, primarily including non-deductible input taxes and surcharges. The following table sets forth a breakdown of our cost of sales and services by nature for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Staff costs | 105,807 | 45.6 | 145,445 | 43.4 | 165,946 | 39.8 | 64,781 | 39.0 | 116,881 | 42.0 |
| Amortization and depreciation charges | 75,423 | 32.5 | 114,948 | 34.3 | 141,686 | 34.0 | 66,190 | 39.9 | 86,802 | 31.2 |
| Cost of inventories and consumables | 25,941 | 11.2 | 40,405 | 12.0 | 63,951 | 15.3 | 19,831 | 11.9 | 46,307 | 16.7 |
| Operation related expenses | 14,430 | 6.2 | 17,212 | 5.1 | 21,164 | 5.1 | 10,437 | 6.3 | 12,387 | 4.5 |
| Other expenses | 10,606 | 4.5 | 17,369 | 5.2 | 23,920 | 5.8 | 4,773 | 2.9 | 15,606 | 5.6 |
| **Total** | 232,207 | 100.0 | 335,379 | 100.0 | 416,667 | 100.0 | 166,012 | 100.0 | 277,983 | 100.0 |

***Selling and Marketing Expenses***

We recognize the importance of long-term investment in brand building and consumer education. Therefore, in line with other players in the consumer medical service industry, we made significant investments in promoting customer awareness of our brand and our services, and expect to continue to do so in the near future. Our selling and marketing expenses primarily consist of (i) marketing and promotion expenses; (ii) staff costs; (iii) travel and transportation expenses; (iv) operation related expenses for sales and marketing team and (v) amortization and depreciation. In particular, our selling and marketing expenses increased significantly for the six months ended June 30, 2021 as compared with that of 2020, primarily due to the differences in timing of our brand advertising placement. In 2021, in line with our marketing strategies, we strategically focused on brand advertisements during NBA season in the first half of 2021, and targeted NBA audience, which consists of a large percentage of male audience, as our potential customers. In addition, in the first half of 2021, with the development of our medical hair care and other services, we continued to promote *Svenson*-related brand awareness and had more promotional activities in this regard. For details, see "Financial Information — Results of Operations — Six Months Ended June 30, 2021 Compared with Six Months Ended June 30, 2020."

**Summary of Consolidated Statements of Financial Position**

The table below sets forth selected information from our consolidated balance sheets as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | 581,798 | 752,780 | 1,156,744 | 1,211,143 |
| Current assets | 152,647 | 178,433 | 437,612 | 785,651 |
| Equity | 203,496 | 239,120 | 406,058 | 534,333 |
| Non-current liabilities | 325,726 | 411,365 | 683,098 | 645,345 |
| Current liabilities | 205,223 | 280,728 | 505,200 | 817,116 |
| Net current liabilities | 52,576 | 102,295 | 67,588 | 31,465 |

We recorded an opening balance of negative retained earnings in the amount of RMB0.4 million as of January 1, 2018, primarily due to our relatively small business scale at the early stage of our business. We improved our financial performance in the following years, primarily attributed to (i) our significant business growth in relation to the number of our clinics and the number of surgeries performed and (ii) our cost control measures and the improvement of our operational efficiency. As of December 31, 2018, we no longer had any accumulated losses after accumulation of earnings. As of December 31, 2018, 2019, 2020 and June 30, 2021, we had retained earnings of RMB53.1 million, RMB88.8 million, RMB252.1 million and RMB292.5 million, respectively.

We had net current liabilities during the Track Record Period. Our net current liability position was primarily attributable to (i) lease liabilities in relation to the properties we leased for our office premises and clinics; (ii) trade and other payables; (iii) contract liabilities in relation to the advanced payments received from customers for services or products that had not yet been provided to the customers; and (iv) borrowings, while our current assets increased at a relatively slower rate during the relevant period. We had a significant amount of contract liabilities in 2020 and six months ended June 30, 2021, primarily due to the growth of our medical hair care services, where we offered medical hair care services in service components.

Although we had net current liabilities during the Track Record Period, our Directors believe that the working capital available to us is sufficient at present and for at least the next 12 months from the date of this document, taking into account the financial resources available to us, including internally generated funds, the [**REDACTED**] from the [**REDACTED**] and the available banking and other facilities. Details of these factors are set out below:

- *Cash flow generated from operations.* Our net cash from operating activities experienced robust growth during the Track Record Period. And we had net cash flow generated from operating activities in the amount of RMB194.6 million, RMB182.5 million, RMB501.6 million and RMB218.3 million in 2018, 2019, 2020 and the six months ended June 30, 2021. As we optimize our product portfolio and cost structure, increase sales of higher-margin services, and continue to grow our business, we expect to generate a steady inflow of cash from operations in the foreseeable future, which will be applied to our working capital.

- *Bank loans and facilities.* Historically, we have been able to obtain our bank borrowings if needed, including short-term working capital loans to support our cash needs. We do not foresee any impediment in continuing to do so in the future. In addition, we plan to negotiate with banks to restructure our current short-term bank borrowings by obtaining better terms of loans and take systematic steps to restructure the composition of our short-term and long-term borrowings, such as refinancing certain portion of our short-term bank borrowings with long-term bank borrowings. As of the Latest Practicable Date, we had unutilized banking facilities of RMB15.8 million.

- [**REDACTED**] *from the* [**REDACTED**]. We expect to receive [**REDACTED**] from the [**REDACTED**] of approximately HK$[**REDACTED**] million based on the mid-point of the indicative [**REDACTED**] range stated in this Document.

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

**Summary of Consolidated Statements of Cash Flow**

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

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash generated from operations before movements in working capital | 218,011 | 228,529 | 437,159 | 191,197 | 215,732 |
| Changes in working capital | (5,181) | 10,477 | 104,144 | 22,622 | 74,918 |
| Cash generated from operations | 212,830 | 239,006 | 541,303 | 213,819 | 290,650 |
| Interests received on bank deposits | 139 | 210 | 941 | 218 | 2,408 |
| Income tax paid | (18,402) | (56,736) | (40,673) | (40,146) | (74,744) |
| Net cash flows generated from operating activities | 194,567 | 182,480 | 501,571 | 173,891 | 218,314 |
| Net cash flows used in investing activities | (102,789) | (105,352) | (142,388) | (44,802) | (97,174) |
| Net cash flows (used in)/from financing activities | (69,689) | (55,815) | (156,116) | (83,877) | 38,341 |
| Net increase in cash and cash equivalents | 22,089 | 21,313 | 203,067 | 45,212 | 159,481 |
| Cash and cash equivalents at beginning of the year/period | 46,387 | 68,476 | 89,789 | 89,789 | 292,856 |
| Exchange gains on cash and cash equivalents | – | – | – | – | 763 |
| **Cash and cash equivalents at end of the year/period** | 68,476 | 89,789 | 292,856 | 135,001 | 453,100 |

## KEY FINANCIAL RATIOS

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

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Return on average equity[(1)] | 30.3% | 16.1% | 50.6% | 17.2%[(7)] |
| Return on average assets[(2)] | 8.5% | 4.3% | 12.9% | 4.5%[(7)] |
| Current ratio[(3)] | 0.74 | 0.64 | 0.87 | 0.96 |
| Quick ratio[(4)] | 0.67 | 0.58 | 0.81 | 0.91 |
| Gearing ratio[(5)] | N/M[(6)] | 0.19 | 0.06 | 0.40 |

*Notes:*

(1) Equals profit for the year/period divided by average balance of total equity attributable to owners of the Company at the beginning and the end of that year/period and multiplied by 100%.

(2) Equals profit for the year/period divided by average balance of total assets at the beginning and the end of that year/period and multiplied by 100%.

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

(4) Equals current assets less inventories and divided by current liabilities as of the same date.

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

(6) As of December 31, 2018, the Group had no bank loans or other borrowings, so the gearing ratio as of that date is not meaningful.

(7) Calculated based on annualized basis.

Our return on average equity decreased from 30.3% for 2018 to 16.1% for 2019 primarily due to (i) a decrease in our profit from 2018 to 2019; and (ii) an increase in total equity resulting from the growth of retained earnings. Our return on average equity increased from 16.1% for 2019 to 50.6% for 2020 primarily due to an increase in our profit from 2019 to 2020. Our return on average equity decreased from 50.6% for 2020 to 17.2% for the six months ended June 30, 2021, primarily due to (i) a decrease in profit and (ii) an increase in total equity accumulation of profit during the relevant period. For details, see "Financial Information — Key Financial Ratios."

## CONTROLLING SHAREHOLDERS

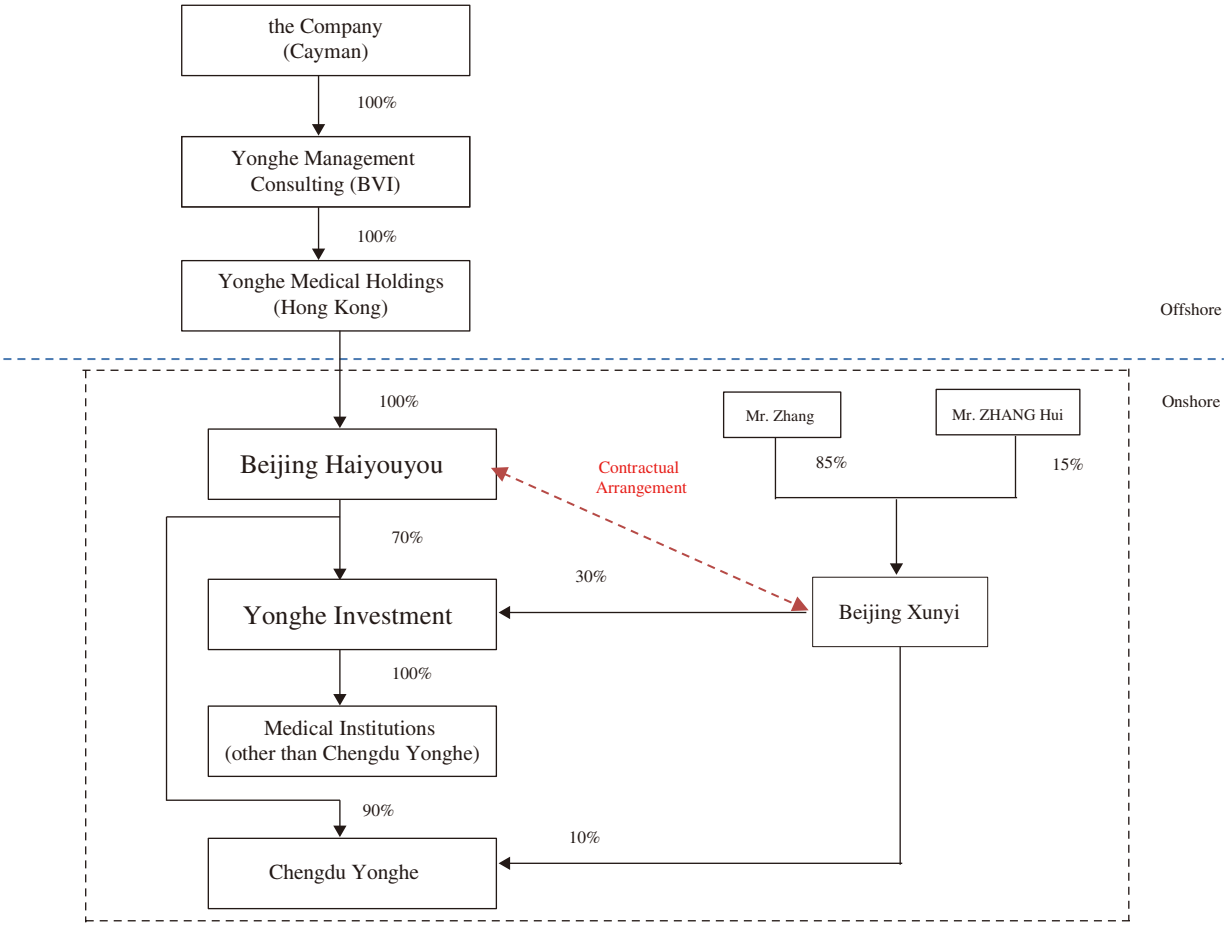
Immediately upon completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), our Company will be held as to approximately [**REDACTED**]% by Mr. Zhang through ZY Investment Capital Ltd and Yunuo Technology Holdings Limited. Yonghe Hair Service and CYH has been forming agreed-upon decisions amongst themselves before general meetings of the Company were convened and casting the same voting decisions at general meetings of the Company. As such, Yonghe Hair Service and CYH could jointly control the exercise of the [**REDACTED**]% voting rights in our Company.

For the purpose of this document, (i) Mr. Zhang, ZY Investment Capital Ltd, ZY Ventures Ltd, (ii) Yonghe Hair Service, Panmao Shanghai, Shanghai Pannuo, CITIC Private Equity Funds Management

Co., Ltd., CYH, CYH Cosmetic Medical Investment Limited, CPEChina Fund II, CPEChina Fund IIA, Citron PE Associates II, Citron PE Funds II, Citron PE Holdings Limited are our Controlling Shareholders. See "Relationship with Our Controlling Shareholders" for details.

## CONTRACTUAL ARRANGEMENTS

Due to foreign ownership restrictions under PRC Laws, our Company is unable to own or hold 100% equity interest in the Medical Institutions conducting our businesses. Rather, we control the 100% equity interest in these entities through Contractual Arrangements, through which we are able to consolidate all other economic benefits enjoyed by the Registered Shareholders from the VIE Entities. The Contractual Arrangements apply to the 30% and 10% equity interests in Yonghe Investment and Chengdu Yonghe, respectively. Yonghe Investment is the holding company of our Medical Institutions (other than Chengdu Yonghe). See "Contractual Arrangements" for details. See also "Risk factors — Risks Relating to Our Contractual Arrangements". The following simplified diagram illustrates the key aspects of the Contractual Arrangements:




*Notes:*

1. Mr. Zhang and Mr. ZHANG Hui are the Registered Shareholders.
2. "—▶" denotes direct legal and beneficial ownership in the equity interest.
3. "◀---▶" denotes contractual relationship.
4. "---" denotes the entities that are subject to the Contractual Arrangements.

## USE OF [REDACTED]

We estimate that we will receive net [**REDACTED**] from the [**REDACTED**] of approximately HK$[**REDACTED**] million, after deducting [**REDACTED**] commissions, fees and estimated expenses payable by us in connection with the [**REDACTED**], and assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range stated in this Document. If the [**REDACTED**] is set at HK$[**REDACTED**] per Share, being the high end of the indicative [**REDACTED**] range, the [**REDACTED**] from the [**REDACTED**] will increase by approximately HK$[**REDACTED**] million. If the [**REDACTED**] is set at HK$[**REDACTED**] per Share, being the low end of the indicative [**REDACTED**] range, the net [**REDACTED**] from the [**REDACTED**] will decrease by approximately HK$[**REDACTED**] million. We intend to use the net [**REDACTED**] of the [**REDACTED**] for the following purposes:

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to expand and upgrade existing hair transplant clinics in our network in China;
- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used for investment on further innovations in products;
- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used for investment in research and development to upgrade our service system with cutting-edge technologies;
- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to integrate industry resources to raise brand awareness in China;
- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to settle the outstanding balance of the acquisition considerations payable by us to Xinsiyu, a related party, for our acquisition of Nu/Hart Hair in May 2021; and
- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used for our working capital and general corporate purposes.

## DIVIDENDS

During the Track Record Period, our Company did not pay or declare any dividend. We paid out a cash dividend of RMB70 million, being approximately RMB[**REDACTED**] per Share, utilizing our existing cash at hand at the time to our existing Shareholders on November 19, 2021 (the "**Dividend**"). The Dividend was approved by our Board and Shareholders on November 12, 2021. We believe that the distribution of the Dividend will not have a material impact on the sufficiency of our working capital after the [**REDACTED**] and we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations. Our historical declarations of dividends may not reflect our future declarations of dividends.

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

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

## [**REDACTED**] EXPENSES

[**REDACTED**] expenses to be borne by us are estimated to be approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) (at the [**REDACTED**] of HK$[**REDACTED**] per Share and assuming the [**REDACTED**] is not exercised) among which (i) [**REDACTED**]-related expenses, including [**REDACTED**] commission and other expenses are approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) and (ii) non-[**REDACTED**]-related expenses are approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million), comprising (a) fees and expenses of legal advisors and Reporting Accountants of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) and (b) other fees and expenses of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million). We incurred approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) of [**REDACTED**] expenses during the Track Record Period, among which approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) was recorded as expenses and approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) was recorded as prepayment.

We estimate that additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) (including [**REDACTED**] commissions of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million), assuming the [**REDACTED**] is not exercised and based on the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**]) will be incurred by our Company, approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) of which is expected to be capitalized. Our [**REDACTED**] expenses as a percentage of [**REDACTED**] is [**REDACTED**]%, assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, (being the mid-point of the indicative [**REDACTED**] range stated in this document) and assuming that the [**REDACTED**] is not exercised. The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

## [REDACTED] STATISTICS

| | Based on an [REDACTED] of HK$[REDACTED] per Share | Based on an [REDACTED] of HK$[REDACTED] per Share |
|---|---|---|
| Our Company's market capitalization upon completion of the [**REDACTED**] (Assuming [**REDACTED**] is not exercised) | HK$[**REDACTED**] million | HK$[**REDACTED**] million |
| Unaudited pro forma adjusted consolidated net tangible assets per Share [(1)] | HK$[**REDACTED**] | HK$[**REDACTED**] |

*Notes:*

(1) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in "Appendix II — Unaudited Pro Forma Financial Information" in this document and on the basis that [**REDACTED**] Shares were in issue immediately upon completion of the Capitalization Issue and the [**REDACTED**], which is assumed to be on June 30, 2021 for the purpose of the pro forma financial information, and takes no account of any Shares which may be issued upon exercise of the [**REDACTED**]. For details of such events and the related adjustments, see "Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets" and "Appendix II — Unaudited Pro Forma Financial Information" in this document. The unaudited pro forma adjusted consolidated net tangible assets of the Group per Share have not taken into account the cash dividend of RMB70 million approved by our Board and Shareholders on November 12, 2021. The unaudited pro forma adjusted consolidated net tangible assets per Share would have been HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) and HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) per Share based on the indicative [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**], being the low-end and high-end, respectively, after taking into account the declaration and payment of the cash dividend.

The estimated valuation of the Company upon completion of the [**REDACTED**] has taken into consideration the business growth potential of the Company and valuation of comparable publicly traded companies listed on the Stock Exchange and mainland China. The final valuation of the Company will be subject to various factors including market condition at the time of [**REDACTED**].

## SUMMARY OF MATERIAL RISK FACTORS

Our business faces risks including those set out in the "Risk Factors" section. As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the "Risk Factors" section in its entirety before you decide to invest in the [**REDACTED**]. Some of the major risks that we face include: (i) 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; (ii) We may be unable to retain our existing physicians and other medical professionals, or to attract suitable physicians and other medical professionals to join our Group; (iii) we are exposed to inherent risks of medical incidents, malpractice, medical negligence, misconduct claims arising from our operations, and resolving such incidents could result in significant costs and materially and adversely affect our reputation and business; (iv) failure to enhance our sales and marketing efficiency could harm our ability to increase the sales of our services and products and achieve broader market reception; (v) we have significantly increased the size and capabilities of our organization since our inception, and we may experience difficulties in managing our growth; and (vi) we conduct our business in a heavily regulated industry, so we expect to incur on-going compliance costs and may face potential penalties for non-compliance.

## IMPACT OF THE COVID-19 OUTBREAK

Since late 2019, the outbreak of a novel strain of coronavirus causing coronavirus disease 2019 (COVID-19) has materially and adversely affected the global economy. In response, countries across the world have imposed widespread lockdowns, closure of work places and restrictions on mobility and travel to contain the spread of the virus. Some of our clinics experienced temporary closures during the early phases of COVID-19 pandemic. Nevertheless, benefiting from the significant growth of the revenue from medical hair care services, our total revenue increased by 33.8% from 2019 to 2020. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during the second quarter of 2020. As a result, we recovered from the adverse impact of COVID-19 pandemic and continued to witness rapid growth in revenue for the six months ended June 30, 2021 as compared to the corresponding period in 2020. For further details of the finical impact of COVID-19 outbreak on our business, see "Financial Information" in this document.

Since late July 2021, the delta variant of COVID-19 has recurred in several provinces across China (the "**Recurrence**"). Our eight clinics located in eight cities (i.e., Nanjing, Wuxi, Zhengzhou, Xi'an, Dalian, Harbin, Luoyang and Xiamen) experienced temporary closures in August 2021. Three clinics located in three cities (i.e., Xiamen, Quanzhou and Harbin) were temporarily closed in September 2021. Four clinics located in four cities (i.e., Lanzhou, Xiamen, Harbin and Xi'an) were temporarily closed in October 2021. Three clinics located in three cities (e.g. Changzhou, Dalian and Lanzhou) were closed in November 2021. The planned opening of three newly-established clinics located in three cities (i.e., Yangzhou, Zhangzhou and Shantou) and the planned upgrade of one clinic located in Urumqi were delayed. As of [the date of this document], three clinics in Changzhou, Dalian and Lanzhou were still in closing and the opening of the newly-established clinics in Yangzhou, Zhangzhou and Shantou were further delayed, while the other clinics mentioned above had resumed normal operation. We currently expect to open the three new clinics in Yangzhou, Zhangzhou and Shantou by February 2022, and resume the operations of the three clinics in Changzhou, Dalian and Lanzhou as soon as allowed by local governmental authorities. As a result, we expected that our total revenue for 2021 would be adversely affected to certain extent by the Recurrence. However, we do not expect the Recurrence would have any material impact on our business operations and financial performance, mainly because (i) the Recurrence is far less severe in terms of suspected or confirmed cases than the previous outbreak; (ii) the Recurrence was effectively controlled due to the quick response of the relevant authorities, and substantially all of the Chinese cities had eased or lifted domestic travel restrictions and resumed normal social activities, work and production as of the date of this document; and (iii) the government authorities, and our Company have developed corresponding systems in response to COVID-19 to relieve its potential impact based on past experience.

Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 has not had any long-term material adverse impact on our operations. However, we cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the situation outside China and the occasional regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business, results of operations and financial condition. See "Risk Factors — Risks Relating to Our Operations — Our operations and business plans have been and may continue to be adversely affected by the COVID-19 pandemic."

## RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

### Share Split

On November 12, 2021, the Shareholders resolved to conduct share split on a one-for-four basis, and the nominal value of the Shares changed from US$0.00001 each to US$0.0000025 each. Immediately after such share split, the issued share capital of the Company is 425,531,916 Shares.

### Dividend Distribution

We paid out a cash dividend of RMB70 million, being approximately RMB0.658 per Share, utilizing our existing cash at hand at the time to our existing Shareholders on November 19, 2021. The Dividend was approved by our Board and Shareholders on November 12, 2021. We believe that the distribution of the Dividend will not have a material impact on the sufficiency of our working capital after the [**REDACTED**] and we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations. Our historical declarations of dividends may not reflect our future declarations of dividends.

### Regulatory Developments

***Regulatory Updates Related to Internet Information Security and Privacy Protection***

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly issued the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》). It specifies the targets in upgrading the securities law-enforcement and judicial systems by 2022 and 2025. The targets include effectively curbing the frequent occurrence of major illegal and criminal cases and making notable advances in the transparency, standardization, and credibility in the securities law-enforcement and judicial system. The document also calls for improving investigation, inspection, and trial mechanisms in terms of law enforcement cracking down on illegal securities activities, strengthening cross-border oversight of law-enforcement and judicial cooperation, and stepping up efforts to build the credit system in the capital market.

On July 10, 2021, the Cyberspace Administration of China (the "**CAC**") published the Measures for Cybersecurity Review (Revised Draft for Comments), which stipulate that if an operator has collected personal information of over one million users and intends to be listed in a foreign country, it must be subject to the cybersecurity review. On November 14, 2021, the CAC, jointly with the relevant authorities, published the Administrative Regulations on Internet Data Security (Draft for Comment), which requires data processors who carry out certain activities to apply for a cybersecurity review in accordance with relevant regulations, and such activities include the proposed listing of the data processor in Hong Kong that affects or may affect national security.

As advised by our PRC Legal Adviser, we believe that the above-mentioned regulatory changes will not have a material adverse effect on our business operations. For details, see "Regulatory Overview — Laws and Regulations Related to Internet Information Security and Privacy Protection." For risks related to the above-mentioned regulatory changes, see "Risk Factors — Risks Relating to Our Business — Failures in properly keeping and maintaining patient records, or in protecting our patients' information from leakage or improper use could expose us, our physicians and other professional medical staff to claims, regulatory actions or litigations."

***Regulatory Updates Related to Medical Beauty Services***

The PRC government authorities have been stepping up regulations on the beauty surgery industry recently. Specifically, on May 28, 2021, the SAMR, SATCM, NHC, NMPA, CCAC, among others, jointly promulgated the Special Rectification Work Plan for Cracking Down on Illegal Medical Beauty Services (關於印發打擊非法醫療美容服務專項整治工作方案的通知), which stipulate that in order to further safeguard the legitimate rights and interests of consumers and protect people's health and life safety, the SAMR, SATCM, NHC, NMPA, CCAC, among others, are scheduled to carry out special rectification work against illegal medical and beauty services nationwide from June to December 2021. The work tasks mainly include: (i) severely crack down on illegal activities related to medical beauty, (ii) strictly standardize the behavior of medical beauty service, (iii) severely crack down on the illegal manufacture, sale of drugs and medical devices, and (iv) seriously investigate and prosecute illegal advertising and internet information. On November 1, 2021, the SAMR promulgated the Enforcement Guidance for the Medical Cosmetology Advertising (醫療美容廣告執法指南) (the "**Enforcement Guidance**"), which stipulates that the market regulatory departments shall rectify the chaos of all kinds of medical beauty advertisements in accordance with the laws and regulations, strive to solve the problems of great harmfulness and concentrated public response, and crack down a number of illegal advertising activities. As confirmed by our PRC Legal Adviser, the final version of the Enforcement Guidance is substantially the same as the Enforcement Guidance for the Medical Cosmetology Advertising (Draft for Comment) (醫療美容廣告執法指南(徵求意見稿)) (the "**Draft for Comment**") previously published by SAMR on August 27, 2021. For details, see "Regulatory Overview — Regulations on Medical Advertising in the PRC" in this document. As advised by our PRC Legal Adviser, the regulatory principles of the Enforcement Guidance are consistent with that of the Advertisement Law of the PRC and the Administrative Measures on Medical Advertisement, and focus on cracking down illegal medical advertisement activities (e.g., guaranteeing cure rate or effective treatment rate, using the name or image of patients, or using advertising spokesmen). The Enforcement Guidance stipulated detailed provisions on the enforcement and application of the regulatory principles set forth in the Advertisement Law of the PRC and the Administrative Measures on Medical Advertisement, and clarified a number of ambiguities and resolved many uncertainties previously involved in the interpretation and/or real-world application of the Advertisement Law of the PRC and the Administrative Measures on Medical Advertisement. Our Directors are of the view that the enactment of the Enforcement Guidance, which explicitly stipulates what types of activities are illegal and clearly streamlines the interpretation and application standards, would actually help us in ensuring our ongoing compliance with the applicable regulations, and would significantly reduce the uncertainties faced by us in this regard. With the assistance of our PRC Legal Adviser, our Directors analyzed the compliance status of our advertising practices shortly after the publishment of the Draft for Comment, and revisited such analysis after the Enforcement Guidance was formally enacted. As advised by our PRC Legal Adviser, the Directors are of the view that our current practice in connection with medical advertisement is in compliance with the Enforcement Guidance in all material respects, and the Enforcement Guidance would not have any material negative impact on our business operation. In addition, with the assistance of our PRC Legal Adviser, we designed a number of training programs, and plan to conduct such trainings on a monthly basis, to familiar our employees of the applicable laws and regulations, including but not limited to the newly enacted Enforcement Guidance.

Based on the due diligence performed by the Joint Sponsors, including reviewing the enhanced internal control measures specifically designed for rectifying the non-compliances relating to the Advertisement Law of the PRC and/or the Administrative Measures of Medical Advertisements as stated in the section headed "Business — Licenses, Permits, Approvals and Compliance — Non-compliances", and considering the work results of the Internal Control Consultant, the view of Protiviti, as well as the

view of the Company's PRC Legal Adviser, nothing has come to the Joint Sponsors attention which would cause them to disagree with our Directors' view in relation to our Group's compliance status with the Enforcement Guidance.

Hair transplant services are deemed as a type of medical beauty services pursuant to the applicable laws and regulations in the PRC, and in line with industry practice, we heavily rely on posting advertisements to maintain our business growth. Therefore, we expect that we will be impacted by the abovementioned regulatory updates. Medical advertisements have always been one of the focus areas of the relevant government authorities, and we have always been subject to extensive regulations in this regard. During the Track Record Period and up to the Latest Practicable Date, we experienced a number of isolated incidents of non-compliances in relation to certain advertisements we posted. See "Business — Licenses, Permits, Approvals and Compliance — Non-Compliances — Non-Compliances Relating to the Advertisement Law of the PRC and/or the Administrative Measures of Medical Advertisements" for more information. With the further tightening of the applicable laws and regulations as discussed above, we expect to devote even more efforts and resources in order to ensure our compliance. We have adopted a series of internal control measures aiming to ensure our compliance of the applicable laws and regulations. See "Business — Internal Control and Risk Management" for more information. We believe that the further enhanced internal control measures we adopted can effectively mitigate the relevant risks, and that we would not be materially and adversely affected by such tightening of regulations.

**Estimated Decrease in Net Profit for 2021**

We currently estimate that our net profit for 2021 would decrease as compared to 2020. In the six months ended June 30, 2021, we experienced a significant growth in revenue as compared to the corresponding period in 2020, while due to the regional resurgence of COVID-19 cases in certain areas in China as disclosed in "— Impact of the COVID-19 Outbreak" above, our revenue growth in the second half of 2021 might be negatively affected. Meanwhile, we expect that our operating expenses would significantly increase for 2021 as compared to 2020, primarily due to (i) an increase in selling and marketing expenses in line with our business expansion and (ii) an increase in general and administrative expenses, primarily attributable to the [**REDACTED**] expenses incurred in relation to the [**REDACTED**]. As a result of these factors, we currently estimate that our net profit for 2021 would decrease as compared to 2020.

**No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in our business, financial condition and results of operations since June 30, 2021, being the latest balance sheet date of our consolidated financial statements as set out in the Accountant's Report included in Appendix I to this document, and up to the date of this document.

*In this document, the following expressions shall have the meanings set out below unless the context otherwise requires.*

| | |
|---|---|
| "Adrenal Androgens" | steroid hormones with weak androgenic activity that is normally secreted by the fetal adrenal zone and the zona reticularis of the adrenal cortex |
| "affiliate(s)" | any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| | [**REDACTED**] |
| "Articles" or "Articles of Association" | the amended and restated articles of association of the Company conditionally adopted on [●] and will come into effect upon [**REDACTED**] (as amended, supplemented or otherwise modified from time to time), a summary of which is set out in Appendix [IV] to this document |
| "Associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Beijing AMR" | Beijing Administration for Market Regulation (北京市市場監督管理局) |
| "Beijing Hafada" | Beijing Hafada Hair Growth Technology Company Limited (北京哈發達增髮科技有限公司), a limited liability company established under the laws of the PRC on May 9, 2020, an indirectly wholly-owned subsidiary of the Company |
| "Beijing Haiyouyou" | Beijing Haiyouyou Technology Company Limited (北京海游友科技有限公司), a limited liability company established under the laws of the PRC on September 2, 2015, an indirectly wholly-owned subsidiary of the Company |
| "Beijing Haizhousheng" | Beijing Haizhousheng Bio Technology Company Limited (北京海洲盛生物科技有限公司), a limited liability company established under the laws of the PRC on April 26, 2021, an indirectly wholly-owned subsidiary of the Company |

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|---|---|
| "Beijing Maoduoduo" | Beijing Maoduoduo Skin Clinic Company Limited (北京毛多多皮膚診所有限公司), a limited liability company established under the laws of the PRC on July 18, 2019, an indirectly wholly-owned subsidiary of the Company |
| "Beijing Xunyi" | Beijing Xunyi Technology Development Company Limited (北京迅翼科技發展有限公司), a limited liability company established under the laws of the PRC on November 16, 2016, our subsidiary by virtue of the Contractual Arrangements |
| "Beijing Yunmao" | Beijing Yunmao Chuangxiang Network Technology Company Limited (北京雲貓創想網絡科技有限公司), a limited liability company established under the laws of the PRC on May 4, 2018, an indirectly wholly-owned subsidiary of the Company |
| "Beijing Yunyihui" | Beijing Yunyihui Medical Management Company Limited (北京雲醫匯醫療管理有限公司), a limited liability company established under the laws of the PRC on October 13, 2020, an indirectly wholly-owned subsidiary of the Company |
| "Board" | the board of Directors |
| "breakeven" | the first month for the revenue of a newly opened clinic to at least equal its expenses |
| "Business Day" | a day that is not a Saturday, Sunday or public holiday in Hong Kong |
| "BVI" | the British Virgin Islands |
| "CAGR" | compound annual growth rate |
| "cash investment payback period" | the amount of time it takes for the accumulated operating profit from a clinic to cover the costs of opening and operating the clinic up to that point, including incurred capital expenditures and ongoing cash and non-cash operating expenses |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant |

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| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |

[**REDACTED**]

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|---|---|
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant, which may be an individual, 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 operations and functions of CCASS, as from time to time in force |
| "CCASS Participant" | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| "Chengdu Yonghe" | Chengdu Wuhou Yonghe Jimei Medical Aesthetic Clinic Company Limited (成都武侯雍禾既美醫療美容診所有限公司), a limited liability company established under the laws of the PRC on April 18, 2017 and a subsidiary of the Company in which 90% equity interest is owned by the Company and the other 10% equity interest is controlled by the Company through contractual arrangement |
| "China" or "the PRC" | the People's Republic of China excluding, for the purposes of this document, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |
| "Citron PE Associates II" | Citron PE Associates II, L.P., formerly known as CITIC PE Associates II, L.P., is an exempted limited partnership registered in the Cayman Islands on September 30, 2013, the general partner of CPEChina Fund II and CPEChina Fund IIA and one of our Controlling Shareholders |

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| "Citron PE Funds II" | Citron PE Funds II Limited, formerly known as CITIC PE Funds II Limited, is a company incorporated in the Cayman Islands with limited liability on September 26, 2013, the general partner of Citron PE Associates II and one of our Controlling Shareholders |
| "Class IIIA Hospitals" | the largest regional hospitals with the highest standard in China designated as Class IIIA hospitals by the National Health and Family Planning Commission hospital classification system, typically having more than 500 beds in operation, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives |
| "close associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "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) |
| "Companies Act" | the Companies Act (2013 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) |
| "Company" or "Our Company" | Yonghe Medical Group Co., Ltd. (雍禾醫療集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands on September 17, 2020 |
| "connected person(s)" | has the meaning ascribed thereto under the Listing Rules |
| "connected transaction(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Contractual Arrangements" | the series of contractual arrangements, as the case may be, entered into by, among others, Beijing Haiyouyou, the Registered Shareholders, Beijing Xunyi and the VIE Entities, details of which are described in the section headed "Contractual Arrangements" in this document |

| | |
|---|---|
| "Controlling Shareholder(s)" | Has the meaning ascribed to it under the Listing Rules and in the context of our Company for the purpose of this document and the [**REDACTED**], means Controlling Shareholders: Yonghe Hair Service Holdings Limited, Panmao Shanghai, Shanghai Pannuo, CITIC Private Equity Funds Management Co., Ltd., CYH, CYH Cosmetic Medical Investment Limited, CPEChina Fund II, CPEChina Fund IIA, Citron PE Associates II, Citron PE Funds II, Citron PE Holdings Limited, Mr. Zhang, ZY Investment Capital Ltd and ZY Ventures Ltd |
| "core connected person(s)" | has the meaning ascribed thereto under the Listing Rules |
| "CPEChina Fund II" | CPEChina Fund II, L.P., an exempted limited partnership registered in the Cayman Islands on September 30, 2013 and one of our Controlling Shareholders |
| "CPEChina Fund IIA" | CPEChina Fund IIA, L.P., an exempted limited partnership registered in the Cayman Islands on April 24, 2014 and one of our Controlling Shareholders |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會) |
| "CYH" | CYH Cosmetic Medical Holdings Limited, a limited liability company established under the laws of Cayman Islands on November 21, 2016 and one of our Controlling Shareholders |
| "Dihydrotestosterone" | a male sex hormone which is the active form of testosterone, formed from testosterone in bodily tissue |
| "Director(s)" | the director(s) of the Company |
| "EIT" | enterprise income tax |
| "EIT Law" | the Enterprise Income Tax Law of the PRC |
| "Extreme Conditions" | extreme conditions caused by a super typhoon as announced by the government of Hong Kong |
| "Frandor Limited" | A company incorporated in the British Virgin Islands on December 18, 1996 and is wholly owned by Trident Trust Company (Singapore) Pte. Limited, as the nominee shareholders of The ZY Trust and The ZH Trust |

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| "FUE" | follicular unit extraction, a sutureless method of hair restoration in which hair follicles are extracted from the back of head under local anaesthesia with the help of special micropunches and implanted in the bald area |
| "GDP" | Gross Domestic Product |
| "General Rules of CCASS" | General Rules of CCASS published by the Stock Exchange and as amended from time to time |
| "GFA" | Gross floor area |

[**REDACTED**]

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| "Group", "Our Group", "Our", "We", or "us" | the Company and all of its subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it |
| "hair follicle" | an organ residing in the dermal layer of the skin that regulates hair growth via a complex interaction between hormones, neuropeptides, and immune cells |

[**REDACTED**]

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| "HKFRS" | financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants |
| "HKSCC" | the Hong Kong Securities Clearing Company Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly owned subsidiary of the HKSCC |

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| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Dollars" or "HK Dollars" or "HK$" | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |

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| "Independent Third Party" or "Independent Third Parties" | a person or entity who is not a connected person of the Company under the Listing Rules |

[**REDACTED**]

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| "IT" | information technology |

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| "KOLs" | the acronym of key opinion leaders |
| "Latest Practicable Date" | November 22, 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication |

[**REDACTED**]

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| "Listing Committee" | the listing committee of the Stock Exchange |

[**REDACTED**]

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| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time) |
| "Medical Institution(s)" | Our medical institutions in the PRC providing aesthetic medical services and are subject to foreign investment restriction in accordance with the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) |
| "Memorandum of Association" or "Memorandum" | the memorandum of association of our Company, conditionally adopted on [●] and will come into effect upon [**REDACTED**] (as amended from time to time) |

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| "MOFCOM" | Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "Mr. Zhang" | Mr. ZHANG Yu (張玉), our founder and one of our Controlling Shareholders |
| "New Tier-One Cities" | Chengdu, Chongqing, Hangzhou, Wuhan, Xi'an, Tianjin, Suzhou, Nanjing, Zhengzhou, Changsha, Dongguan, Shenyang, Qingdao, Hefei, and Foshan |
| "NPC" | The National People's Congress of the People's Republic of China (全國人民代表大會) |
| "Nu/Hart Hair" | a renowned hair transplant service provider originated from the U.S. |

[**REDACTED**]

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| "Panmao Shanghai" | Panmao (Shanghai) Investment Center (Limited Partnership) (磐茂(上海)投資中心(有限合夥)), a limited liability partnership established under the laws of the PRC on June 24, 2016, the sole shareholder of Yonghe Hair Service Holdings Limited and one of the Controlling Shareholders |
| "Panxin Shanghai" | Panxin (Shanghai) Investment Center (Limited Partnership) (磐信(上海)投資中心(有限合夥)), a limited liability partnership established under the laws of the PRC on March 24, 2016, a former shareholder of the Company |
| "PBOC" | People's Bank of China (中國人民銀行) |
| "PRC Government" | the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them |
| "Qualified Institutional Buyers" or "QIBs" | qualified institutional buyers within the meaning of Rule 144A |

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| "Registered Shareholders" | two individual shareholders of Beijing Xunyi, namely Mr. Zhang and Mr. ZHANG Hui, Mr. Zhang's brother |
| "Regulation S" | Regulation S under the U.S. Securities Act |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "Rule 144A" | Rule 144A under the U.S. Securities Act |
| "SAFE" | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| "SAIC" | State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) |
| "SAMR" | the State Administration for Market Regulation of the PRC (中華人民共和國市場監督管理總局) |
| "Securities and Futures Commission" or "SFC" | the Securities and Futures Commission of Hong Kong |
| "Serum Ferritin" | widely recognized as an acute phase reactant and marker of acute and chronic inflammation that is nonspecifically elevated in a wide range of inflammatory conditions, including chronic kidney disease, rheumatoid arthritis and other autoimmune disorders, acute infection, and malignancy |
| "SFO" | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time) |
| "Shanghai Pannuo" | Shanghai Pannuo Corporate Management Service Company Limited (上海磐諾企業管理服務有限公司), a limited liability company established under the laws of the PRC on March 24, 2016 |
| "Share(s)" | ordinary share(s) with nominal value of US$0.0000025 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "sq.m." | square meter(s) |
| "STA" | State Taxation Administration of the PRC (中華人民共和國國家税務總局) |

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| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subsidiary" | has the meaning ascribed thereto under the Listing Rules |
| "Substantial Shareholder(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Svenson" | a globally renowned brand originated from London that had over six decades of experience in offering hair restoration products and services |
| "Svenson Beijing" | Svenson Hair Care (Beijing) Company Limited (史雲遜護髮(北京)有限公司), a limited liability company established under the laws of the PRC on November 5, 2003, an indirectly wholly-owned subsidiary of the Company |
| "Svenson Yantai" | Yantai Svenson Hair Care Co., Ltd. (煙臺史雲遜護髮有限公司), a limited liability company established under the laws of the PRC on August 17, 2021, an indirectly wholly-owned subsidiary of the Company |
| "Takeovers Code" | the Code on Takeovers and Mergers and Share Buy-backs, as published by the SFC (as amended, supplemented or otherwise modified from time to time) |
| "The ZH Trust" | a discretionary trust established by Mr. ZHANG Hui (as the settlor) and Trident Trust Company (Singapore) Pte. Limited (as the trustee) on March 25, 2021 for the benefits of Mr. ZHANG Hui and his family |
| "The ZY Trust" | a discretionary trust established by Mr. Zhang (as the settlor) and Trident Trust Company (Singapore) Pte. Limited (as the trustee) on March 25, 2021 for the benefits of Mr. Zhang and his family |
| "Tier-One Cities" | Beijing, Shanghai, Guangzhou and Shenzhen |

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| "Tier-Two Cities" | Ningbo, Kunming, Fuzhou, Wuxi, Xiamen, Jinan, Dalian, Harbin, Wenzhou, Shijiazhuang, Quanzhou, Nanning, Changchun, Nanchang, Guiyang, Jinhua, Changzhou, Huizhou, Jiaxing, Nantong, Xuzhou, Taiyuan, Zhuhai, Zhongshan, Baoding, Lanzhou, Taizhou, Shaoxing, Yantai, and Langfang |
| "Track Record Period" | 2018, 2019, 2020 and the six months ended June 30, 2021 |

[**REDACTED**]

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| "United States" or "U.S." | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| "U.S. dollars", "US$" or "USD" | United States dollars, the lawful currency of the United States |
| "U.S. Exchange Act" | the United States Securities Exchange Act of 1934, as amended or supplemented from time to time and the rules and regulations promulgated thereunder |
| "U.S. GAAP" | generally acceptable accounting principles in the U.S. |
| "U.S. Securities Act" | the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| "VIE" | variable interest entity |
| "VIE Entities" | the entities that we control certain percentage of their shareholding through the Contractual Arrangements which comprised, as at the Latest Practicable Date, Yonghe Investment, Medical Institutions (other than Chengdu Yonghe) wholly-owned by Yonghe Investment and Chengdu Yonghe |

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| "Xizang Yonghe" or "Yonghe Yuhui" | Xizang Yonghe Startups Investment Management Partnership (Limited Partnership) (西藏永禾創業投資管理合夥企業(有限合夥)), a limited liability partnership established under the laws of the PRC on December 30, 2016, now known as Tianjin Yonghe Yuhui Enterprise Management Partnership (Limited Partnership) (天津永禾玉輝企業管理合夥企業(有限合夥)), a shareholder of our Group prior to the Reorganization |
| "Yonghe Investment" | Beijing Yonghe Medical Investment Management Company Limited (北京雍禾醫療投資管理有限公司), a limited liability company established under the laws of the PRC on September 30, 2015, an indirectly wholly-owned subsidiary of the Company |
| "Yonghe Research Laboratory" | Beijing Yonghe Hair Transplant Technique Research Laboratory Company Limited (北京雍禾植發技術研究院有限公司), a limited liability company established under the laws of the PRC on May 9, 2011, an indirectly wholly-owned subsidiary of the Company |
| "ZH Investment Capital Ltd" | a company incorporated in the British Virgin Islands on March 25, 2021 and wholly-owned by ZH Ventures Ltd |
| "ZH Ventures Ltd" | a company incorporated in the British Virgin Islands on March 25, 2021 and wholly-owned by Frandor Limited |

The English names of PRC laws, regulations, governmental authorities, institutions, and of companies or entities established in the PRC included in this document are translations of their Chinese names or vice versa and are included for identification purposes only. In the event of inconsistency, the Chinese versions shall prevail.

## FORWARD-LOOKING STATEMENTS CONTAINED IN THIS DOCUMENT ARE SUBJECT TO RISKS AND UNCERTAINTIES

This document contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for the periods of time to which such statements relate. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing the Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our business strategies and plans to achieve these strategies;
- the actions of and developments affecting our competitors;
- our future debt levels and capital needs;
- changes to the political and regulatory environment in the industry and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- changes in competitive conditions and our ability to compete under these conditions;
- future developments, trends and conditions in the industry and markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- effects of the global financial markets and economic crisis;
- our financial conditions and performance;
- our dividend policy; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

In some cases, we use the words "aim," "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "going forward," "intend," "ought to," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "will," "would" and similar expressions to identify forward-looking statements. In particular, we use these forward-looking statements in the "Business" and "Financial Information" sections of this document in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Our Directors confirm that the forward-looking statements are made after reasonable care and due consideration. Nonetheless, due to the risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all.

Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

*An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the "Financial Information" section, before deciding to invest in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such an event, the market price of our Shares could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.*

*These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed "Forward-Looking Statements" in this document.*

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business; (ii) risk relating to our industry; (iii) risks relating to our contractual arrangements; (iv) risks relating to doing business in China and (v) risks relating to the [**REDACTED**]. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also have a material adverse effect on our business, financial condition and operating results. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

## RISKS RELATING TO OUR BUSINESS

### Our historical business growth, revenue and profitability may not be indicative of future performance, and our success depends, in part, on our ability to execute our business strategy.

We experienced significant growth during the Track Record Period. Our total revenue increased from RMB934.3 million in 2018 to RMB1,224.5 million in 2019, and further to RMB1,638.3 million in 2020. In addition, our revenue increased from RMB601.6 million for the six months ended June 30, 2020 to RMB1,053.4 million for the six months ended June 30, 2021. While our revenue was generated mainly from rendering hair transplant services, revenue from medical hair care services also grew rapidly over the same period. We recorded a net profit of RMB53.5 million, RMB35.6 million, RMB163.3 million and RMB40.4 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. However, our net profit fluctuated during the Track Record Period. Our net profit decreased by RMB17.9 million, from RMB53.5 million in 2018 to RMB35.6 million in 2019. Such decrease was primarily due to the increases in selling and marketing expenses and general and administrative expenses, both of which were generally in line with our business expansion. In addition, we have an increase in overall staff costs to support our business growth. Our net profit increased significantly by RMB127.7 million from RMB35.6 million in 2019 to RMB163.3 million in 2020, mainly due to an increase in gross profit, reflecting our business growth in all service types. In addition, our major costs and expenses, such as selling and marketing expenses and general and administrative expenses, had increased at a relatively slower rate during the relevant year. Furthermore, our net profit decreased from RMB65.5 million for the six months ended June 30, 2020 to RMB40.4 million for the six months ended June 30, 2021, primarily due to an increase in selling and marketing expenses, reflecting the differences in timing of brand advertising

placement, which was in line with our marketing strategies during the relevant period. Therefore, we cannot assure you that we will achieve similar growth rate like 2019 to 2020, or that we will be successful in mitigating any negative growth rate in the future. Our revenues, expenses and operating results may vary from period to period and you should not rely on the results of any prior periods as indicative of our future growth or financial results. Our ability to achieve profitability and positive cash flow will depend in large part on our ability to successfully execute our business strategies, which in turn depends on a number of factors, including our ability to:

- successfully improve our existing services and products, launch new services and products and continue to increase our market share in the hair-related healthcare industry;
- develop functionality and features that address market demand and preferences;
- maintain effective operational, financial and management controls across a larger operating scale; and
- respond to evolving industry standards and government regulations that impact our growing business.

We may also encounter fluctuation in operation costs and expenses, as well as other unforeseen costs and expenses, difficulties, complications, delays and other unknown events. In addition, our ability to execute our business strategy is subject to various factors beyond our control, such as changes in the macroeconomic and regulatory environment and competitive dynamics. We cannot assure you that we will be able to respond to these changes in a timely and effective matter or at all, failure of which will adversely affect our business, results of operations and financial condition.

**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.**

According to Frost & Sullivan, in 2020, we ranked first in the hair-related healthcare industry in China in terms of various key financial and operational indicators, including the total revenue for 2020, the number of registered physicians at the end of 2020, the number of clinics in operation at the end of 2020, and the number of hair transplant patients for 2020. For details, see "Business — Our Competitive Strengths — China's Largest Hair Transplant Service Provider." We are committed to establishing and maintaining the market recognition of our brand. Over the years, our brand development has set us on a course for success. For details, see "Business — Awards and Recognitions" in this document. We believe our operational and financial performance is highly dependent on the strength of our brand, which is critical to increasing our customer base and forging long-term relationships with them. However, we cannot assure you that we will be able to maintain and enhance our brand, and remain our reputation and market leading position in China. Any negative review, comment or allegation against our Company, our physicians, our clinic network, among others, or services and products offered by our platform, appearing in the media or in social media forums may harm our brand, reputation and public image. We may also face challenges from others seeking to profit from, or defame, our brand. Any of the foregoing may result in loss of potential and existing customers or business partners and, in turn, have a material adverse effect on our business, financial condition, results of operations and prospects.

**We conduct our business in a heavily regulated industry, so we expect to incur on-going compliance costs and may 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. For details, see "Regulatory Overview". Accordingly, our clinics are subject to periodic licensing renewal requirements and inspections by various government agencies and departments. During the Track Record Period, some of our clinics were subject to administrative penalties due to certain non-compliance incidents. Please refer to the sections headed "Business — Legal Proceedings and Compliance — Non-Compliance Incidents" and "Business — Licenses, Permits and Approvals" in this document for more details. If we or our business partners 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 clinics, or if our physician fail to obtain or maintain a valid license, or if we fail to keep and management the medical record properly, 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 hair-related healthcare services. 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 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. There is 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.

**Non-compliance with the PRC advertising laws, rules and regulations could subject us to liabilities.**

In line with many other companies in our industry, we rely heavily on our sales and marketing activities to promote our brand and services, and in particular, we made substantial efforts in promoting our brand and marketing our services using internet platforms. We are obligated under PRC laws and regulations to monitor our advertising content to comply with applicable laws. According to the Administrative Measures on Medical Advertisement (醫療廣告管理辦法) and Notice of the Ministry of Health on Further Strengthening the Administration of Medical Advertisements (衛生部關於進一步加強醫療廣告管理的通知), our clinics must apply for and obtain a medical advertisement examination certificate before publishing a medical advertisement. Violation of these regulations may result in penalties against the hospital, including rectification, orders, warnings, suspension of operations, revocation of relevant permits to engage in the provision of specific medical services, and the revocation of the Medical Institution Practicing License. In addition, if the content of the published advertisement is different from what is approved and documented in the medical advertisement examination certificate, the competent authority may revoke the medical advertisement examination certificate and refuse to accept any applications for advertisement examination for a period of one year. In addition, if a special

government review is required, we must confirm that such review has been performed and the approval has been obtained before we publish the advertisement. For advertising content related to certain types of products and services, such as pharmaceuticals and medical equipment, we are required to confirm that the advertisers have completed filings with local authorities and obtained all requisite government approvals, including review of operating qualifications, proof of quality inspection of the advertised products and government pre-approval of the contents of the advertisement. 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 document.

Whilst we endeavor to comply with PRC advertising laws and regulations, we cannot guarantee that we would not inadvertently become non-compliant with relevant advertising laws and regulations. During the Track Record Period, some of our clinics 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), the Medical Advertising Management Measures (醫療廣告管理辦法), and/or the Interim Measures for the Administration of Internet Advertisement (互聯網廣告管理暫行辦法), and/or the Enforcement Guidance for the Medical Cosmetology Advertising (醫療美容廣告執法指南). See "Business — Legal Proceedings and Compliance — Non-Compliance Incidents" for details. In addition, any changes in the existing laws and regulations (such as the newly promulgated Enforcement Guidance for the Medical Cosmetology Advertising (醫療美容廣告執法指南), 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.

**Any lack of requisite approvals, licenses, permits, registrations or filings applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.**

We are subject to extensive government regulations for all material aspects of our operations in China, and are required to obtain and maintain various approvals, licenses and permits, and to complete various registrations or filings, to operate our business, including but not limited to business license, medical institution practicing license, environmental impact assessment filing, fire safety inspection, and permits and filings in relation to relevant constructions. For details, see "Business — Licenses, Permits, Approvals and Compliance." These approvals, licenses and permits are obtained upon satisfactory compliance with, among other things, the applicable laws and regulations. Complying with government regulations may require substantial expense, and any non-compliance may expose us to liability. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time and resources to rectify the issues.

If we fail to obtain the required licenses, permits and approvals, or if the scope of our operations exceed the scope permitted under the applicable licenses, permits and approvals, we may be subject to fines, confiscation of the income derived from the related clinics, the suspension of operations of the related clinics, and adverse publicity arising from such non-compliance with government regulations. If we fail to obtain the necessary approvals, licenses and permits for new clinics in time, our network

expansion plan may be delayed. In addition, many of these licenses are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation, and there can be no assurance that we will be able to obtain, renew and/or convert all of the approvals, licenses and permits required for our existing business operations upon their expiration in a timely manner or at all, which may materially impact our operations.

During the Track Record Period, we were fined by relevant government authorities for certain isolated non-compliance incidents relating to our failure to obtain certain approvals and licenses necessary to operate our clinics. For details, see "Business — Licenses, Permits and Approvals." In addition, we identified certain non-compliance incidents relating to our historical failure to promptly update the business scopes set forth in the business licenses of some of our clinics. We have resolved substantially all the non-compliance incidents identified, and are in the process of rectifying the remaining non-compliance incidents, and have adopted a series of enhanced internal control measures aiming to prevent similar non-compliances from recurring. We expect to incur additional costs as a result of the measures we take to rectify the remaining non-compliances and to prevent similar non-compliances from recurring, however, we cannot assure you that we will be able to fully rectify all non-compliance incidents in a timely manner, or that we will not be subject to any future regulatory reviews and inspections where other non-compliance incidents might be identified, which might materially and adversely affect our business, financial condition, results of operations and prospects.

**We may be unable to retain our existing physicians and other medical professionals, or to attract suitable physicians and other medical professionals to join our Group.**

We believe our professional medical staff, including physicians, nurses, and other medical professionals is at the core of our medical hair care services. The qualification and expertise of physicians and other medical professionals practicing at our clinics are vital to the quality of services provided by our clinics and our competitiveness. For details of our current professional team, see "Business — Our Professional Team." Our future success depends on our ability to retain, attract and motivate a sufficient number of qualified and experienced professional medical staff, which is necessary to meet the demands of the services at our existing clinics and our future expansion. The number of qualified and experienced professional medical staff in the market that meets our Group's requirements 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 other medical hair care service providers for these personnel, we may need to offer more competitive terms, such as higher compensation and other rewards, which would increase our costs of operation. We cannot guarantee that we will win the competition in retaining and attracting these professionals. We may also be subject to the constant risks that our competitors will poach our experienced medical staff with more attractive incentives. Failure to retain, attract or motivate qualified and experienced professional medical staff could adversely affect the operations of our clinics, and any material increases in the turnover rates of our professional medical staff could also have a material adverse effect on our business, results of operation and financial results and prospects.

**We are exposed to inherent risks of medical incidents, malpractice, medical negligence, misconduct claims arising from our operations, and resolving such incidents could result in significant costs and materially and adversely affect our reputation and business.**

The safety and quality of our hair-related healthcare services are vital to the success of our business in the industry which depends significantly on the performance of our physicians and other medical professionals. As a hair-related healthcare service provider, we strictly adhered to relevant medical standards and the safety of our customers is of utmost importance to our operations. Our major business sector, hair transplant services, are the least risky surgical operations to address the hair-related problems. However, we may still face the risk of exposure to malpractice, or medical negligence or misconduct and claims on account of alleged deficiencies in the medical hair care services provided by us. We may not be able to avoid malpractice, medical negligence or misconduct exposure, including on account of error by our personnel, machine or equipment error, or the lack of pre-operative advice or post-operative care by patients. We cannot assure you that we or any of our physicians will not encounter malpractice, medical negligence or misconduct claims in the future. These claims may be brought against us or any of our medical professionals by way of legal proceedings or lodging of formal complaints with the relevant licensing regulatory bodies. In any of these cases, we may be required to pay monetary compensation or damages or that the qualifications or licenses of our medical professionals may be suspended or revoked or otherwise they may be subject to other disciplinary action. Negative publicity associated with these claims or actions may affect our business as well as our business reputation.

In addition, we rely on our physicians and other medical staff in our clinics to make informed decisions regarding the appropriate treatment and evaluation of our customers, particularly due to their position as the front-line staff which have high degree of interactions with our customers. However, any miscommunications or misconducts between our physicians and other medical staff on one hand; and the customers 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 and injuries. Any medical incident, malpractice, medical negligence, or misconducts occurring at our clinics may result in claims or legal proceedings against us, which, regardless of merit or settlement status, could adversely affect our industry reputation, divert management resources and cause us to incur significant costs, such as legal fees.

**Failure to perform hair transplant services in accordance with various evolving laws and regulations in the PRC could expose us, our physicians and other professional medical staff to penalties, claims, regulatory actions or litigations.**

Hair transplant services are deemed as a type of aesthetic medical services pursuant to the applicable laws and regulations in the PRC, and the provision of aesthetic medical services in China is subject to complex and evolving laws and regulations. For example, the Rules of Aesthetic Medical Services Management (醫療美容服務管理辦法) require aesthetic medical services be conducted by, or under the supervision of, physician holding the Aesthetic Medical Attending Physician (醫療美容主診醫師) qualification. Any non-compliance with the relevant regulations may expose us to regulatory actions and administrative penalties. For example, during the Track Record Period, we identified three isolated incidents where physicians at our clinics performed hair transplant surgeries for patients without the supervision of physicians possessing the Aesthetic Medical Attending Physician qualification, and two of our clinics, namely Kunshan and Nanchang clinics, were penalized for the three incidents. For details, see "Business — License, Permits, Approvals and Compliance — Non-Compliances" in this document.

Such non-compliance incidents may also involve us in medical disputes and expose us, our physicians and other professional medical staff to claims and litigations. For example, we have an ongoing legal proceeding against our Kunshan clinic brought by a hair transplant patient alleging that, among others, the handling physician did not possess relevant qualification of Medical Aesthetic Attending Physician. For details, see "Business — Legal Proceedings" in this document. In addition, the laws and regulations regarding aesthetic medical services in China are generally complex and evolving, and there is a trend of heightened scrutiny in this industry. Any actual or alleged failure to comply with the evolving laws and regulations on aesthetic medical services could damage our reputation, expose us to penalties claims, regulatory actions or litigations, and negatively affect our business operation and financial position.

**Failure to manage our customers' expectations may lead to complaints and legal claims by our customers.**

Most medical hair care services we offer have the objective of improving our customers' physical appearance. Our customers 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 customers' expectations and managing the same are also crucial to our business. We rely on our physicians and other medical staff to engage in detailed discussion to identify our customers' demands while understanding and managing their expectations. In addition, we also had a team of around 100 professionals who are responsible for client satisfaction, as of the Latest Practicable Date. However, there is no guarantee that some of our customers may still find that the results are dissatisfying. If we fail to manage our customers' expectations properly, a discontented customer may request refunds, complain on the internet or media, or file legal claim against us. Such actions from a discontented customer may materially and adversely affect our brand image and cause deterioration in the level of trust among our customers and potential customers in our services and products, thereby resulting in reduced sales and potential loss of customers.

**Our operations and business plans have been and may continue to be adversely affected by the COVID-19 pandemic.**

Coronavirus disease 2019 (COVID-19) is a contagious disease caused by a novel strain of coronavirus. The first known case of COVID-19 was identified in December 2019, and the disease has since spread worldwide, leading to an ongoing pandemic. As part of the intensified efforts to contain the spread of COVID-19, governments across the world took a number of actions, including imposing lockdown policies, quarantining and asking residents to remain at home and to avoid public gatherings. As a result, China's healthcare service market had been negatively impacted, which in turn materially and adversely affected our business, results of operations and financial condition. For example, some of our clinics experienced temporary closures during the COVID-19 pandemic and many of our customers avoided going to our clinics in order to avoid social gathering and prevent from themselves being infected. As a result, many of our service procedures were delayed or cancelled and the overall demand for our services and products has decreased. Although we have experienced a strong rebound of our business volume since April 2020, as the Chinese government has gradually lifted restrictions and quarantine measures in China, we cannot assure you that our business volume and growth rate will remain robust in the future due to the uncertainties associated with the development of COVID-19.

The exacerbation, continuance or reoccurrence of COVID-19 has already caused and may continue to cause an adverse and prolonged impact on the economy, geopolitical and social conditions. Our business operation has also been, and may continue to be, negatively affected by the outbreak. Should there be an escalation of the spread, China may again take strict emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations including our hair transplant clinics, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our business. In addition, our customers may hesitate to visit our clinics or reschedule their visits to avoid social gathering and cross-infections. Meanwhile, newly-established clinics may not be fully utilized due to the decrease in customer volume. As a result, it might take longer time for us to achieve a utilization rate as expected. Furthermore, some of our suppliers are based overseas, we may experience shortage or delay in our supplies due to COVID-19.

As a result, the extent of the disruption to our business and the related impact on our financial results and outlook cannot be reasonably estimated at this time. We are continuously evaluating its impact on our business, results of operations and financial condition, which we believe will depend on the duration of the pandemic and the government's responsive measures. The potential downturn brought by and the duration of the COVID-19 outbreak may be difficult to assess or predict as the actual effects will depend on many factors beyond our control. If the outbreak persists or escalates, we may be subject to further negative impact on our business operations, results of operations and financial condition.

**Most of our hair transplant services were offered in one-off session and failure to attract new customers could materially and adversely affect our business, results of operations, financial condition and prospects.**

During the Track Record Period, our revenue was generated mainly from rendering hair transplant services, which were generally one-off in nature. In 2018, 2019, 2020 and the six months ended June 30, 2021, approximately 98.3%, 97.8%, 86.2% and 75.0% of our total revenue were derived from the hair transplant, respectively. The medical effect of most of our hair transplant surgeries performed may last indefinitely. There is no guarantee that our clients will visit our clinics again after their treatment with us. Although we see a stable growth in our business in medical hair care services, we cannot guarantee that our customers for medical hair care services will increase or we will continue to attract new clients for our hair transplant services or other services. If for any reasons, including failure to keep up with various demands and preferences of clients and potential clients and provision of services unsatisfactory to our clients, we may be unable to attract new clients for our hair transplant services and the growth of our medical hair care services may not grow as expected. In the event that we are unable to maintain similar level of number of new clients, our business, results of operations, financial condition and prospects may be materially and adversely affected.

**If we fail to implement our expansion plan and growth strategies as planned, our business and prospects could be materially and adversely affected. In addition, the integration process of the newly established clinics may take longer than expected.**

We operate the largest and most widely distributed hair transplant clinic chain in China. We grew rapidly during the Track Record Period. The number of our hair transplant clinics increased from 30 by the end of 2018 to 37 by the end of 2019, continued to increase to 48 by the end of 2020 and further increased to 52 by June 30, 2021. We plan to strategically expand our operations to lower-tier cities, in order to serve the unmet needs of our customers. See "Business — Our Strategies — Nationwide

Footprint in Major Metropolitan Centers With Great Growth Potential" for details. However, we cannot assure you that our expansion plan will be successfully implemented without delay or at all. Our ability to successfully implement our expansion plan is subject to a number of risks, including our ability to obtain the requisite permits, licenses and approvals for our clinics and our ability to timely recruit sufficient qualified staff for our newly-established clinics. Any failure or delay in implementing any part of our expansion plan may result in insufficient capacity to support our growth and market expansion, which in turn could materially and adversely affect our business, financial condition and results of operations. Moreover, our expansion plan requires significant capital investment, and the actual costs may exceed our original estimates, which could materially and adversely affect the realization of expected return on our investment. In addition, it typically requires a period of time for newly-established clinics to achieve a utilization rate comparable to our mature-stage clinics, due to factors such as time needed to build client awareness in the local community and to integrate such newly-established clinics into our existing infrastructure. In addition, we may take time to ramp up the sales in such clinics. Such newly-established clinics may even operate at a loss, which could adversely affect our operating results.

**Our ability to stay attuned of the market trends or latest technological advancement in the hair-related healthcare industry may affect our business operations.**

We operate in an industry with rapidly changing consumer needs and preferences which challenge us to continuously keep up with the latest developments and trends in the hair-related healthcare industry and respond to the changing requests and preferences of our customers. In order to keep up with the latest developments and trends in the hair-related healthcare industry, we need to (i) upgrade our existing medical hair equipment, services and products from time to time; (ii) diversify the services we provided and source new services and products; and (iii) enhance our sales and marketing efficiency and optimize our marketing strategies. If we fail to anticipate and adjust ourselves based on the market trends or fail to introduce latest technologies in the hair-related healthcare industry, we may not be able to provide high-quality services in satisfying customers' needs. We may lose our existing customers and be unable to attract new customers, which could have a material adverse impact on our business performance, results of operations, financial condition and prospects.

**Failure to enhance our sales and marketing efficiency could harm our ability to increase the sales of our services and products and achieve broader market reception.**

We rely on our brand image and reputation in marketing and selling our services. As there are an increasing number of potential customers who may seek services based on our reputation and brand in the hair-related healthcare service industry, we will need to constantly manage our reputation and brand image and further enhance consumer education through promotions, advertisements and online marketing activities. We also plan to enhance customer education through sales and marketing activities. During the Track Record Period, our selling and marketing expenses represented the largest components of our revenue, and accounted for 49.6%, 53.1%, 47.6% and 54.9% of our total revenue in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. Our ability to increase customer base and achieve broader market reception of our services and products will depend to a significant extent on our ability to enhance our sales and marketing efficiency. We expect to enhance our sales and marketing efficiency to cover broader geographical areas in the future. However, there is no guarantee that we will be successful in attracting and maintaining our customers, and our ability to control selling and marketing expenses may significantly affect our profitability. Even if we are successful in expanding our customer base, if these efforts paid to analyze their needs and market our services and products to them would divert our limited resources away from existing customers, our ability to attract and maintain our

current customers would be negatively impacted, which might cause a loss of our current customer base and adversely affect our business operation and financial results.

**We have significantly increased the size and capabilities of our organization since our inception, and we may experience difficulties in managing our growth.**

We are the leading medical group in China specialized in providing hair-related healthcare services in terms of total revenue for 2020. We achieved fast growth during the Track Record Period, and as our development and commercialization plans and strategies evolve, we may need to add a significant number of experienced managerial, operational, sales, marketing, financial and other personnel. Our recent growth and any future growth will impose significant added responsibilities on members of management, including:

- retaining, recruiting, integrating, maintaining and motivating a sufficient number of qualified and experienced employees in particular, our professional medical staff, including physicians, nurses, and other medical professionals;
- managing our internal development efforts effectively;
- developing and enhancing our services and products, and improving our operating infrastructure;
- increasing innovation to spur business growth and operation efficiency; and
- improving our operational, financial and management controls, reporting systems and procedures.

Our future financial performance will depend, in part, on our ability to effectively manage our recent growth and any future growth, and our management may also have to devote a substantial amount of time to managing these growth activities. Our failure to do so could materially adversely affect our business, financial condition, results of operations and prospects.

**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 our founder and chief executive officer, Mr. ZHANG, who has led us to stay ahead in China's hair-related healthcare industry. We also rely on a number of key members of our senior management team, such as our assistant president and chief of operations, Mr. XU Yang, our director of finance, Ms. HAN Zhimei, our president of medical department, Mr. LI Xiaolong, and our director of sales and marketing, Mr. HUANG Donghong. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of our key personnel, we may not be able to locate suitable or qualified replacements in a timely manner or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be 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, customers 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.

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

All of our clinics are currently situated at leased properties, we are particularly susceptible to fluctuations in the property rental market. As of the Latest Practicable Date, we leased 339 properties in the PRC with an aggregate GFA of approximately 194,444.85 sq.m. Among such 339 properties, 133 were operated as offices and clinics, and 206 were used as employee dormitories. Our leases for offices and clinics typically have a term of five years and our leases for dormitories typically have a term of one year, and before the expiry of each of our leases, we have to negotiate the terms of renewal with our respective lessors. There is no assurance that our existing leases would be renewed on similar or favorable 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 addition, several of our leased properties has title defects, and as advised by our PRC Legal Adviser, our use of these defective leased properties may be affected by third parties' claims or challenges against the lease. For details, see "Business — Properties — Leased Properties — Title Defects."

In the event that we are required to relocate our clinics, 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 hair transplant clinics at new location involves regulatory approvals and reviews by various PRC governmental authorities, and we may need to complete of relevant environmental assessment, construction permits and fire prevention inspection of the new premises by relevant PRC governmental authorities.

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

During the Track Record Period, our suppliers primarily included providers of advertising services, IT services, pharmaceuticals, surgical consumables and hair care products. 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 hair transplant medical clinics 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 customers 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.

**We have engaged a limited number of suppliers for raw materials, which may render us vulnerable to supply shortages, quality issues and price fluctuations and could materially and adversely affect our business, results of operations, financial condition and prospects.**

We have engaged a limited number of suppliers for raw materials and services during the Track Record Period. Any interruptions or changes in the supply of raw materials or services, or our inability to obtain substitute suppliers meeting our quality standards at acceptable prices in a timely manner may impair our ability to meet the demands of our customers, which could have a material adverse effect on our business, results of operations, financial condition and prospects. Moreover, we expect our demand for such raw materials and services increase as we continuously expand our business scale, and we cannot guarantee that our current suppliers have the capacity to meet our increasing demand going forward. On the other hand, we enter into minimum purchase commitments with certain suppliers who are advertising service providers, which may affect our ability to timely adjust the amount of our purchases for their advertising services based on our actual business demands, and may cause us to incur unnecessary advertising costs merely to fulfill such minimum purchase commitments. If demand for our services is less than we expect for reasons beyond our control, such as a slowdown in the global or Chinese economy, we may experience additional excess and obsolete inventories and our profitability may suffer. In the event that our major suppliers terminate their business relationships with us, or fail to provide us with adequate supply to meet our needs, we may not be able to find suitable alternative suppliers within a short period of time. Therefore, if we cannot retain business relationships with our existing suppliers, or if these suppliers increase prices, delay in delivery, provide unqualified equipment or raw materials, or encounter financial, operating or other difficulties, we may experience business disruptions, which could materially and adversely affect our business, financial condition and results of operations. Moreover, prices of certain principal raw materials and services may increase significantly, in which case we may not be able to increase the prices of our services to offset the impacts. Therefore, if our suppliers increase prices of or reduce discounts on the raw materials and we fail to secure replacement for such materials or services at a better price, we may experience a decline of our profits.

**We do not have full control over the quality of the medical service equipment, pharmaceuticals and medical consumables we use in providing our services, and we may be subject to product liability claims.**

Even though we are selective in choosing our suppliers, we cannot assure you that the 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 customers. 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 hair transplant 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.

**Failures in properly keeping and maintaining patient records, or in protecting our patients' information from leakage or improper use could expose us, our physicians and other professional medical staff to claims, regulatory actions or litigations.**

We are required by applicable laws to properly keep and maintain patient records, and to protect the patients' information from being leaked. We are also subject to, among others, regulations on personal information protection in the PRC which limits the use of personal information of our customers collected by us for such purposes for which they were collected or for a directly related purpose. During our ordinary course of business, we collect certain data of our customers, primarily including name, gender, contact information, basic health information, consultation and treatment records, and other medical records. We collect such information primarily for communications, treatment planning and delivery of our services and products. We have adopted various measures to ensure legal compliance. See "Business — Data Privacy and Security" for more information. However, the laws and regulations regarding data privacy and protection in China are generally complex and evolving, with uncertainty as to the interpretation and application thereof. For example, on July 10, 2021, the Cyberspace Administration of China published the Measures for Cybersecurity Review (Revised Draft for Comments) (the "**Draft Cybersecurity Review Measures**"), which stipulate that if an operator has collected personal information of over one million users and intends to be listed in a foreign country, it must be subject to the cybersecurity review. Although the number of our customers are far below one million and we believe that our collection and handling of the personal information of our customers do not constitute "data processing activities" or any other activities that may affect national security under the Draft Cybersecurity Review Measures, the application scope of the draft measures remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of the laws and regulations. If a final version of the Draft Cybersecurity Review Measures is adopted, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. Any actual or alleged failure to comply with the evolving data privacy and protection laws and regulations could damage our reputation and negatively affect our business operation and financial position.

In addition, we cannot guarantee that our confidentiality policies and measures can completely prevent our customers' information from leakage or unauthorized use. Our information technology systems could be breached through hacking activities. Medical records in our hair transplant clinics of our customers, 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 customers 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.

**Acquisition of the businesses of an international brand in a specific jurisdiction may expose us to external risks arising from the businesses of the same brand in other jurisdictions.**

During the Track Record Period, we partially acquired the businesses of certain international brands. For example, in 2017, we acquired the mainland China business of *Svenson*, a globally renowned brand originated from London, and there might be other businesses established or to be established under the same brand *Svenson* in Hong Kong and overseas markets. As of the Latest Practicable Date, we had not established any cooperation and/or other contractual relationship with the business of *Svenson* in other regions. In May 2021, we acquired the Hong Kong business of *Nu/Hart Hair*, a renowned hair

transplant service provider originated from the U.S., and there also might be other businesses established or to be established under the same brand *Nu/Hart Hair* in the U.S. and other overseas markets. These businesses are operated by third parties that beyond our control in various other jurisdictions. Since we rely on our brand image and reputation in marketing and selling our services, and there are an increasing number of potential customers who may seek services based on our reputation and brand in the hair-related healthcare service industry, any negative news and media reports related to the businesses of these brands in other jurisdictions may also negatively affect our reputation and even expose us to claims or litigations. Particularly, the medical hair care services we offered in *Svenson Medical Hair Care Centers* have constituted a significant portion of our overall businesses and we plan to further expand our medical hair care services and routine hair care services under the band *Svenson* in the future. If the reputation of the brand were materially damaged by any external risks arising from the businesses in other jurisdictions, we may have to incur extra costs for marketing or even change our branding strategy. If any of the aforesaid happens, our brand image and reputation, business, results of operations, financial conditions and prospects might be adversely affected.

**Future acquisitions of businesses, technologies or know-how could materially and adversely affect our business, financial condition and results of operation if we fail to integrate the acquired businesses or technologies successfully into our existing operations or if we discover previously undisclosed liabilities.**

To enhance our growth, we may acquire businesses, technologies or know-how that we believe would benefit us in terms of product development, technology advancement or distribution network. For example, in May 2021, we acquired the Hong Kong business of Nu/Hart Hair (顯赫植髮), a renowned hair transplant service provider originated from the U.S. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. As part of our business strategies, we plan to acquire independent local hair transplant clinics to expedite the concentrated multi-location expansion in key regions. See "Business — Integrate Industry Resources and Promote Multi-Brand Strategy" for details. However, the materialization of our acquisition plan depends on our ability to identify, negotiate, and complete the acquisitions and to obtain necessary financing. Our business growth may be hurdled to some extent as a result of our failure to complete the planned acquisitions. Even if we complete acquisitions, as we have limited experience with significant acquisitions, we may experience:

- difficulties in integrating any acquired companies, technologies, or personnel into our existing business, particularly integrating different quality management, customer service and other business functions;
- delays or failure in realizing the benefits of the acquired company, technologies or know-how;
- diversion of our management's time and attention from other business concerns;
- higher costs of integration than we anticipated; or
- difficulties in retaining key employees of the acquired business who are necessary to manage these acquisitions.

If we invest in businesses that operate outside China, these risks may increase because of our limited experience in operating overseas.

An acquisition could also materially impair our results of operation by causing us to incur debt or requiring us to amortize acquired intangible assets. We may also discover deficiencies in internal controls, data adequacy and integrity, product quality and regulatory compliance, and product liabilities in businesses we acquire which we did not uncover prior to such acquisition. Therefore, we may become subject to penalties, lawsuits or other liabilities. Any difficulties in the integration of acquired businesses or technologies or unexpected penalties, lawsuits or liabilities in connection with such businesses or technologies could have a material adverse effect on our business, financial condition and results of operations.

**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 programs, which are critical to our storage of customer 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 license of the business management system to us; (ii) any unauthorized use of software and allegations regarding infringements of intellectual property rights during our business operation; (iii) increasing pressure on our servers and network capacities as a result of growing customer base and expanding operations; (iv) undetected programming errors, bugs, flaws, corrupted data or other defects; (v) hacking or other attacks on our network infrastructure and system programs; and (vi) floods, fires, extreme temperatures, power 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 customers when accepting credit cards for payment. If our network security is compromised and such information is stolen or obtained by unauthorized 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.

**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 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 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 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 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.

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

We have obtained insurance to cover certain potential risks and liabilities. However, we may not be able to acquire any insurance for certain types of risks such as business liability or service disruption insurance for all of our operations in the PRC, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. For example, we do not maintain business interruption insurance, nor do we maintain key-man life insurance. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

In addition, we do not maintain a medical liability insurance. We are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by our patients against us. Although we believe our comprehensive quality control system can effectively control the safety and quality of the services provided by our medical professionals, there is no assurance that we are able to maintain the occurrence of medical disputes at a manageable level. If we are found to be liable to any material medical incidents and there is no insurance to cover our losses arising therefrom, our business, financial condition and results of operations could be materially and adversely affected.

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

We believe that intellectual property rights are critical to our continued success. We have registered or applied for registration of certain trademarks, patents and domain names in the PRC and Hong Kong relating to the names and logos of our clinics. For details, see "Business — Intellectual Property" and "Appendix IV — Statutory and General Information — B. Further Information About the Business of the Company — 2. Our material intellectual property rights" in this document for details. We endeavor 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 unauthorized 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.

**Litigation or third-party claims of intellectual property infringement or challenges to the validity of our patents or other intellectual properties could be expensive, time-consuming and unsuccessful, and may prevent or delay our business development.**

We have been, and may continue to be, involved in allegations regarding infringements of intellectual property rights (including the use of computer software, trademarks, copyright and patents), and some of which may be raised by other market players as a way of malicious competition. These allegations, with or without merits, may lead to potential litigations, administrative proceedings, and other disputes. In addition, we may be subject to allegations, litigations or administrative proceedings because of intellectual property infringement committed by our employees or third-party collaborators (for instance, distributors or manufacturers where we purchased our computers or software).

Defending against intellectual property claims arising from allegations, litigations, administrative proceedings and other disputes is time-consuming and costly and can impose a significant burden on our ability to develop, launch and sell our products and services. Such claims, even without merits, may still harm our reputation in the industry. If we are the target of claims by third parties asserting that our potential products or intellectual property infringe upon the rights of others, we may be forced to incur substantial expenses or divert substantial managerial resources from our business. Potential allegations, litigations, administrative proceedings, and other disputes, or any adverse determination therefrom in an intellectual property claim against us, especially in relation to the use of computer software, trademarks, copyright and patents, may adversely affect or even disrupt our operation. For example, such allegations, litigations, administrative proceedings or other disputes, may cause us to stop or delay using certain computer software, which may interrupt our normal operation. Further, an adverse determination in an intellectual property claim to which we may become a party could subject us to significant liabilities, resulting in payments of substantial damages and/or an injunction on us that prevents us from developing relevant potential product candidates or technologies. Further, if a patent infringement claim is brought against us or our collaborators, we or they could be forced to stop or delay research, development, or sales of the service or product that is the subject of the suit.

As of the Latest Practicable Date, we were not involved in any intellectual property infringement actions that would have a material and adverse effect on our business, results of operations and financial condition. In particular, we were not being imposed on any administrative penalties or fines in relation to the use of software which would have a material adverse effect on the operation. However, there is no assurance that our business will not experience disruption or other performance problems in this regard in the future.

**We had net current liabilities during the Track Record Period. We cannot assure you that we will not experience net current liabilities in the future, which could expose us to liquidity risks.**

During the Track Record Period, we had net current liabilities of RMB52.6 million, RMB102.3 million, RMB67.6 million and RMB31.5 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. Our net current liability position was primarily attributable to (i) lease liabilities in relation to the properties we leased for our office premises and clinics; (ii) trade and other payables; (iii) contract liabilities in relation to the advanced payments received from customers for services or products that had not yet been provided to the customers; and (iv) borrowings, while our current assets increased increased at a relatively slower rate during the relevant period. However, there can be no assurance that we will not experience liquidity problems in the future. If we fail to maintain sufficient cash and financing, we may not have sufficient cash flows to fund our business, operations and capital expenditure and our business and financial position will be adversely affected.

**The discontinuation of any preferential tax treatment currently available to us could adversely affect our results of operations, cash flow and prospects.**

On October 31, 2018, one of our subsidiaries, Yonghe Investment, was qualified as "High and New Technology Enterprises" ("**HNTEs**") under the relevant PRC laws and regulations, and therefore, was entitled to a preferential income tax rate of 15%. For more details on the preferential tax treatments, Note 12 of Appendix I to this document. In addition, we may enjoy other preferential tax treatments from time to time in relation to the healthcare industry. Our eligibility to receive the preferential tax treatment requires that we continue to qualify for them. The incentives are provided to us at the discretion of the central government or relevant local government authorities, which could determine at any time to eliminate or reduce the preferential tax treatment, generally with prospective effect. Since our receipt of the preferential tax treatment is subject to periodic time lags and changing government practice, as long as we continue to receive these preferential tax treatment, our net income in a particular period may be higher or lower relative to other periods depending on the potential changes in these preferential tax treatment in addition to any business or operational factors that we may otherwise experience. The discontinuation of preferential tax treatment currently available to us could have an adverse effect on our financial condition, results of operations, cash flows and prospects.

**We may face risk regarding the obsolescence for our inventories.**

Our inventories primarily consist of (i) pharmaceuticals and medical consumables used in our hair transplant services; (ii) medical hair care consumables and (iii) wash and hair care products. As of December 31, 2018, 2019, 2020, and June 30, 2021, our inventories amounted to RMB14.3 million, RMB14.5 million, RMB27.0 million and RMB44.5 million, respectively. During the Track Record Period, we have not identified material inventory items requiring impairment provisioning, as we have maintained an effective inventory management system. We believe that maintaining appropriate levels of inventories helps us meet market demands in a timely manner. We generally purchase supplies based on our estimated demand, and we monitor the expiration dates closely through our logbook and physical inspection to ensure that no expired items will be used or sold. As our business expands, our inventory level may increase and our inventory obsolescence risk may also increase accordingly. Furthermore, any unexpected material fluctuations in the supplies or changes in customers' preferences may lead to decreased demand and overstocking of supplies and increase the risk of obsolescence.

**We may face risk regarding the recoverability of deferred income tax assets.**

As of December 31, 2018, 2019, 2020, and June 30, 2021, our deferred income tax assets amounted to RMB12.5 million, RMB20.9 million, RMB29.0 million and RMB32.7 million, which mainly represent temporary differences attributable to unused tax losses, refund liabilities, temporary differences due to leasing and temporary differences due to intercompany transaction. For details on the movements of our deferred income tax assets during the Track Record Period, please see note 27 in Appendix I to this document. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant judgment on the tax treatments of certain transactions and assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered. We cannot guarantee the recoverability or the estimated movement of our deferred income tax assets. If we fail to recover our deferred income tax assets, our future financial condition and results of operations may be adversely affected.

**We may incur impairment losses on our intangible assets and goodwill.**

We recognize the value of our goodwill, software and trademark as intangible assets. As of December 31, 2018, 2019, 2020, and June 30, 2021, we had intangible assets of RMB1.4 million, RMB3.3 million, RMB3.5 million and RMB34.1 million, respectively. In particular, our intangible assets increased significantly as of June 30, 2021, primarily due to the acquisition of Nu/Hart Hair. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets that have an useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For details on the impairment assessment methods for our intangible assets, please see note 2.8 and 16 in Appendix I to this document. Adverse changes in the future may result in decreases in the value of our intangible assets, which in turn would result in an impairment loss. In addition, we make certain assumptions when assessing the value of our intangible assets, including assumptions on their useful life. There are inherent uncertainties relating to these assumptions. We cannot assure you that our assumptions will prove to be correct. Any such change in our assumptions may require us to re-valuate our intangible assets, which may in turn result in impairment losses. Significant impairment losses on intangible assets may have a material adverse effect on our financial condition and results of operations and may in turn limit our ability to obtain financing in the future.

**The recoverability of our prepayments, deposits and other receivables may affect our business operations.**

During the Track Record Period, our prepayments, deposits, and other receivables primarily consisted of (i) prepayments for advertising and information technology service fees to third parties for marketing and promotional related activities; (ii) security deposits for rentals and advertising services; (iii) receivables in relation to rental deposits and other rental related payments yet refunded and (iv) prepaid rental and property management fees. There are uncertainties about the recoverability of our prepayments, deposits and other receivables. As of December 31, 2018, 2019, 2020, and June 30, 2021, we recorded current prepayments, deposits, and other receivables of RMB60.1 million, RMB68.3 million, RMB107.4 million and RMB131.6 million, respectively. However, there is no guarantee that we will be able to proceed with our sales and marketing plan and clinic expansion plan. We conduct assessments on the recoverability of prepayments, deposits and other receivables based on, among others, our historical settlement records, our relationship with relevant counterparties, payment terms, current

economic trends and to a certain extent, the larger economic and regulatory environment, which involve the use of various judgments, assumptions and estimates by our management. However, there is no assurance that our expectations or estimates will be entirely accurate, as we are not in control of all the underlying factors affecting such prepayments, deposits, and other receivables. Therefore, if we are not able to recover the prepayments, deposits, and other receivables as scheduled, our financial position and results of operations may be adversely affected.

**We may not be able to fulfil our obligations in respect of contract liabilities.**

Our contract liabilities represent our obligations to provide the contracted products and services to customers. Our contract liabilities mainly arise from the advance payment made by customers while the underlying products and services are not yet to be provided. As of December 31, 2018, 2019, 2020 and June 30, 2021, we had contract liabilities of RMB16.9 million, RMB23.4 million, RMB120.4 million and RMB181.8 million, respectively. Our contract liabilities increased significantly over years, which was generally in line with our business growth. In particular, our contract liabilities increased significantly to RMB181.8 million as of June 30, 2021, which was primarily in relation to the medical hair care services we rendered, where we offered hair care services in service components. For further details, please see "Financial Position — Discussion of Certain Selected Items From the Consolidated Statements of Financial Position — Contract Liabilities."

However, there is no assurance that we will be able to fulfil our obligations in respect of contract liabilities as the completion of our services is subject to various factors, including the normal operation of our clinics, the service capacity of our clinics, the availability of our physicians and other medical staff and the supply of raw materials and consumables from our suppliers. If we are not able to fulfil our obligations with respect to our contract liabilities, the amount of contract liabilities will not be recognized as revenue, and we may have to return the advance payment made by our customers. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

**We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all.**

We may require additional capital beyond those generated by the [**REDACTED**] from time to time to grow our business, to better serve our customers, develop and enhance our products, and improve our operating infrastructure. Accordingly, we may need to sell additional equity or debt securities or obtain a credit facility. Future issuances of equity or equity-linked securities could significantly dilute our existing shareholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. The incurrence of debt financing would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

**Our results of operations, financial conditions, and prospects may be adversely affected by fair value changes and credit risk associated with our financial assets at fair value through profit or loss.**

During the Track Record Period, we had certain financial assets at fair value through profit or loss, primarily consisting of wealth management products we purchased by using our free cash. In 2020, we purchased financial assets at fair value through profit or loss of RMB31.1 million and such wealth management products were redeemed in the same period. The fair value of these financial products was

determined by discounted cash flow, which was estimated based on expected return, and discounted at a rate that reflects the risk of underlying investments. This requires our management to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. As a result, such treatment of carrying amounts of our financial assets measured at fair value through profit or loss may cause significant volatility in or materially and adversely affect our period-to-period earnings, financial condition and results of operations.

**Failure to comply with anti-corruption and/or anti-commercial bribery laws, rules and regulations could subject us, our physicians, other medical professionals and staff to investigations and administrative or criminal proceedings, which may harm our market reputation and adversely affect the business, financial condition and results of operations.**

The remuneration package of our employees includes basic salary, allowance and bonus. Therefore, our staff may be incentivized to adopt inappropriate and excessive sales practices, which may involve advising customers to purchase unnecessary or unsuitable services, in order to boost their sales. Any incidents of inappropriate and excessive sales practices which lead to unnecessary or inadequate services provided to our customers may results in complaints, claims and legal actions to be brought by dissatisfied customers. We therefore face potential penalties for non-compliance. We have adopted policies and procedures designed to ensure that the physicians, other medical professionals and staff in our network reasonably comply with anti-corruption, anti-unfair competition, and anti-commercial bribery laws, rules and regulations. For more details of the relevant laws and regulations, see "Regulatory Overview — Laws and Regulations Regarding Anti-Corruption, Anti-Unfair Competition and Anti-Commercial Bribery." For more details on our internal control policies and procedures, see "Business — Internal Control and Risk Management — Adoption and Implementation of Internal Control Policies." However, there is no assurance that our policies and procedures will effectively prevent any non-compliance with relevant anti-corruption, anti-unfair competition, and anti-commercial bribery laws, rules and regulations arising from actions taken by the individual physicians, other medical professionals and staff. If this occurs, we, the physicians, and other medical professionals and staff may be subject to investigations and administrative or criminal proceedings, and our reputation could be significantly harmed by any negative publicity stemming from such incidents, which may materially and adversely affect the business, financial condition and results of operations.

## RISKS RELATING TO OUR INDUSTRY

**Our business performance may be negatively affected by unfavorable public perception of the overall private healthcare industry, especially the hair-related healthcare industry.**

Our existing and potential customers are generally cautious about the risks inherent in hair transplant treatments, and are particularly sensitive to any negative comments, reports or allegations against any medical hair care service providers. From time to time, there are negative news and media reports on the health risks relating to medical hair care services as well as accidents relating to the hair transplant treatment. 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 hair-related healthcare industry or hair transplant services may, regardless of merit, lead to a deterioration in market confidence in medical hair care 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 medical hair care services may decline and the entire private healthcare 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.

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

The hair transplant service market and medical hair care service market in the PRC have been competitive due to the abundance of medical institutions. Our major competitors include other private hair transplant institutions, hair transplant departments of public hospitals and aesthetic service providers. Due to continuous technological advancements, the hair-related healthcare industry is defined by rapidly changing market trends. Our customers are constantly looking for innovative and high-performance services at reasonable prices. As a result, we are in constant competition with other hair-related healthcare service providers in aspects such as quality and scope of services, comprehensiveness and diversity of hair-related healthcare service, hair transplant service equipment as well as pricing. In the geographical areas in which we operate, there are other hair-related healthcare service providers, 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, with greater convenience or more specialized physicians, or cheaper pricing. If we are unable to attract and maintain customers, 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 customer visits at our clinics, and our brand image and reputation could be forgotten, which could adversely affect our business, financial condition and results of operations.

**Demand for our medical hair care services may not increase as rapidly as we anticipate due to a variety of factors, including weakness in general economic conditions, which would materially and adversely affect our business, results of operations and financial condition.**

According to Frost & Sullivan, in China, the population suffering from alopecia was approximately 250.9 million in 2020. On the one hand, according to Frost & Sullivan, the size of the hair-related healthcare market in China reached RMB18.4 billion in 2020, and is projected at RMB138.1 billion in 2030 with a CAGR of 22.3%. However, the future demand of medical hair care services may be difficult to anticipate since it depends on a number of variables, most of which are beyond our control. Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. A general slowdown in economy of China or other overseas markets or an uncertain economic outlook would adversely affect consumer spending habits which may, among other things, result in a decrease in the number of overall medical hair care services or a reduction in consumer spending on elective or higher value medical hair care services, each of which would have a material adverse effect on our results of operations. The prospect of the hair-related healthcare industry is also uncertain and may develop slower than we expect. The market prospect depends on a number of factors, including, among others, the level of market recognition, competing technologies and the industry's own development. If the demand for medical hair care services fails to increase as rapidly as we anticipate, our business, financial condition, results of operations and prospects may be materially and adversely affected.

## RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

**If the PRC government deems that the Contractual Arrangements 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 received through the Contractual Arrangements.**

Foreign ownership of certain business in PRC is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own 100% of the equity interest in Relevant Businesses. We are an exempted company incorporated in the Cayman Islands, as such, we are classified as a foreign enterprise under PRC laws and regulations. Through our wholly-owned PRC subsidiary, Beijing Haiyouyou, we have entered into a series of Contractual Arrangements with Registered Shareholders, Beijing Xunyi and the VIE Entities. Please see "Contractual Arrangements" for details. Through our shareholdings and the Contractual Arrangements, our Company acquired effective control over the VIE Entities and Beijing Xunyi, at our Company's sole discretion, can receive all of the economic interest returns generated by the VIE Entities and Beijing Xunyi.

As advised by our PRC Legal Advisers, save as disclosed in "Contractual Arrangements — Legality of The Contractual Arrangements," the Contractual Arrangements are legal, valid, enforceable and binding upon the parties thereto under the current laws and regulations. Please see "Contractual Arrangements — Legality of The Contractual Arrangements" for details. 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. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Accordingly, 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 NPC promulgated 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**"). However, the interpretation and application of the FIL remain uncertain. In addition, the FIL stipulates that foreign investment includes "Foreign Investors investing in PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council." We cannot assure you that the Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the Contractual Arrangements. If our ownership structure, Contractual Arrangements and business 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 the VIE Entities or Beijing Xunyi;
- revoking our business licenses and/or operating licenses;

- shutting down our clinics;
- discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring; 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 VIE Entities, 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 the Contractual Arrangements. In addition, if any equity interest held by Beijing Haiyouyou in the VIE Entities or Beijing Xunyi is held in the court custody in connection with its litigation, arbitration or other judicial or dispute resolution proceedings, we cannot assure you that the equity interest will be disposed of to us in such proceedings in accordance with the Contractual Arrangements. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

**Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and our VIE Entities, Beijing Xunyi and Registered Shareholders may fail to perform their obligations under our Contractual Arrangements.**

We provide business support, technical and consulting services to our VIE Entities and Beijing Xunyi, in which we have no 100% ownership interest and rely on the Contractual Arrangements with the VIE Entities, Beijing Xunyi and the Registered Shareholders to control and operate the Relevant Businesses. Although we have been advised by our PRC Legal Advisers that our 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 VIE Entities as direct ownership. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the board of directors of the VIE Entities or Beijing Xunyi, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level. If the VIE Entities, Beijing Xunyi and the Registered Shareholders fail to perform its respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in PRC. However, the legal system in PRC is not as developed as in other jurisdictions, such as the United States. There are very few precedents and little official guidance as to how Contractual Arrangements in the context of a variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these Contractual Arrangements. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the VIE Entities and Beijing Xunyi, injunctive relief and/or winding up of these entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not

be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief to issue a provisional or final liquidation order. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. In the event 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 full control over the VIE Entities and Beijing Xunyi and may not prevent leakage of equity and values to the Registered Shareholders or obtain the full economic benefits of the same. Our ability to conduct our business may be negatively affected.

**Our Contractual Arrangements may result in adverse tax consequences to us.**

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that our Contractual Arrangements were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could materially and adversely affect us by (i) increasing the tax liabilities of the VIE Entities and Beijing Xunyi without reducing the tax liability of Beijing Haiyouyou; or (ii) limiting the ability of the VIE Entities and Beijing Xunyi to obtain or maintain preferential tax treatments and other financial incentives. In addition, the PRC tax authorities may impose late payment interest. Our profit may be materially reduced if our tax liabilities increase or if it is subject to late payment fees or other penalties.

**Beijing Xunyi or the Registered Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.**

Our fully control over the VIE Entities and Beijing Xunyi is based upon the Contractual Arrangements with, among others, the Registered Shareholders. These Registered Shareholders may potentially have a conflict of interest with us, and it may breach its agreements with us or if it otherwise acts in bad faith, if it believes the Contractual Arrangements would adversely affect its own interests. We cannot assure you that when conflicts of interest arise between us and Registered Shareholders, Beijing Xunyi will act completely in our interests or that the conflicts of interest will be resolved in our favor. If Beijing Xunyi does not act completely in our interests or the conflicts of interest between us and it are not resolved in our favor, our business and financial condition may be materially and adversely affected.

Currently, we do not have arrangements to address the potential conflicts of interest faced by the Registered Shareholders in their dual capacity as beneficial owners of our Group. We rely on the Registered Shareholders to comply with PRC laws and regulations, which protect contracts and provide that directors and executive officers owe a duty of loyalty to us and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of the PRC and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime.

In addition, Registered Shareholders may breach or refuse to renew, or cause Beijing Xunyi to breach or refuse to renew, the Contractual Arrangements with us. If Registered Shareholders or Beijing Xunyi breaches its agreements with us or otherwise have disputes with us, we may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly distract our management's attention, adversely affect our ability to fully control VIE Entities and Beijing Xunyi and otherwise result in negative publicity and adversely affect the reputation of our integrated healthcare systems. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

**Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.**

On March 15, 2019, the NPC promulgated the Foreign Investment Law or the FIL, which has become effective on January 1, 2020 and replaced the outgoing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, as well their implementation rules and ancillary regulations, or the Outgoing FIE Laws. See "Regulatory Overview — Laws and Regulations Related to Foreign Investment in the PRC."

Meanwhile, the Implementation Rules to the PRC Foreign Investment Law came into effect as of January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law. However, uncertainties still exist in relation to interpretation and implementation of the FIL, especially in regard to, including, among other things, specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. While FIL does not define contractual arrangements as a form of foreign investment explicitly, it has a catch-all provision under definition of "foreign investment" that includes investments made by foreign investors in the PRC through other means as provided by laws, administrative regulations or the State Council, we cannot assure you that future laws and regulations will not stipulate contractual arrangements as a form of foreign investment. Therefore, there can be no assurance that our control over the VIE Entities and Beijing Xunyi through Contractual Arrangements will not be deemed as foreign investment in the future. In the event that any possible implementing regulations of the FIL, any other future laws, administrative regulations or provisions deem contractual arrangements as a way of foreign investment, or if any of our operations through contractual arrangements is classified in the "restricted" or "prohibited" industry, or "negative list" under the FIL, our Contractual Arrangements may be deemed as invalid and illegal, and we may be required to unwind the Contractual Arrangements and/or dispose of any affected business. Also, if future laws, administrative regulations or provisions mandate further actions to be taken with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Furthermore, under the FIL, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements. In addition, the FIL provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within a five-year transition period, which means that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries in such transition period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance, financial condition and business operations.

## RISKS RELATING TO DOING BUSINESS IN CHINA

**Ongoing regulatory reforms in the PRC are unpredictable. Any adverse change in the PRC regulatory regime could have a material adverse effect on our business.**

The PRC's regulatory regime governing the medical healthcare 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 and medical institutions, 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 and medical institutions, 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 healthcare service system, future regulatory changes may affect public hospital reform, limit private or foreign investments in healthcare 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.

**Economic, political and social conditions and government policies in the PRC could affect our business and prospects.**

A substantial majority of our revenue is derived from our businesses in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, foreign exchange controls and resource allocation. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for about four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the digital medical service industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

**PRC regulations over loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or 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 registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises, capital contributions by an offshore holding company to its wholly-owned subsidiary in China shall obtain approvals from or report investment information to MOFCOM or its local counterpart and register with the SAMR or its local counterpart to make capital contributions to the foreign-invested enterprises. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE or its local branches, and our PRC subsidiaries may not procure loans exceeding the statutory limits and is required to be registered with the SAFE or its local branches or file with SAFE through its online service platform. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the [**REDACTED**] of the [**REDACTED**] to fund our operations in China may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

**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 resident (including PRC individuals and PRC corporate entities) ("**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. 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.

**Government control of currency conversion and future fluctuations in Renminbi exchange rates could have a material adverse effect on our business, results of operations, financial condition and prospects, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms.**

Our revenue and expenses are substantially denominated in Renminbi, which is currently not a freely convertible currency. A portion of the revenue must be converted into other currencies in order to meet our foreign currency obligations. For example, we will need to obtain foreign currency to make payments of declared dividends, if any, on our Shares.

Under China's existing foreign exchange regulations, we are able to make payments of current account items, including paying dividends in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, in the future, China's government may take measures, at its discretion, to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. If such measures are implemented, we may not be able to pay dividends in foreign currencies to holders of our Shares. Foreign exchange transactions under our capital account are subject to significant foreign exchange controls and require the SAFE's approval. These limitations could affect our ability to obtain foreign exchange through offshore financing.

The value of the Renminbi against the Hong Kong dollar and the U.S. dollar and other currencies fluctuates, and is subject to changes resulting from government policies (including those of the PRC government) and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the mid-point exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the Hong Kong dollar and the U.S. dollar or other foreign currencies in the long-term, depending on the fluctuation of the basket of currencies against which it is currently valued; or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the U.S. dollar or other foreign currencies. We cannot assure you that the Renminbi will not experience significant appreciation or depreciation against the U.S. dollar or other foreign currencies in the future.

Our [**REDACTED**] from the [**REDACTED**] will be denominated in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets and our [**REDACTED**] from the [**REDACTED**]. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on our Shares in foreign currencies. There are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost in China, and we have not utilized, and may not in the future utilize, any such instrument. Furthermore, currently we are also required to obtain SAFE's approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

**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 favorable 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 favorable 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.

**You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.**

Substantially all of our assets and all of our Directors are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons in the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**Arrangement**"), pursuant to which a party with an enforceable final court judgment rendered by any designated PRC court or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant PRC court or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute did not agree to enter into a choice of court agreement in writing. On January 18, 2019, the Supreme People's Court of the PRC and Hong Kong entered into an agreement regarding the scope of judgments which may be enforced between China and Hong Kong (關於內地與香港特別行政區法院相互認可和執行民商案件

判決的安排) (the "**New Arrangement**"). The New Arrangement will broaden the scope of judgments that may be enforced between China and Hong Kong under the Arrangement. Whereas a choice of jurisdiction need to be agreed in writing in the form of an agreement between the parties for the selected jurisdiction to have exclusive jurisdiction over a matter under the Arrangement, the New Arrangement provides that the court where the judgment was sought could apply jurisdiction in accordance with the certain rules without the parties' agreement. The New Arrangement will replace the Arrangement when the former becomes effective. However, as of the Latest Practicable Date, the New Arrangement has not become effective and no specific date has been determined as its effective date. The Arrangement continues to apply and, as such, it may be difficult or impossible for investors to enforce a Hong Kong court judgment against our assets or our Directors or senior management in China.

On January 9, 2021 MOFCOM promulgated Measures for Blocking Improper Extraterritorial Application of Foreign Laws and Measures (阻斷外國法律與措施不當域外適用辦法) with immediate effect, or Order No. 1, pursuant to which, where a citizen, legal person or other organization of China is prohibited or restricted by foreign legislation and other measures from engaging in normal economic, trade and related activities with a third State (or region) or its citizens, legal persons or other organizations, he or she/it shall truthfully report such matters to MOFCOM within 30 days. Upon assessment and being confirmed that there exists unjustified extra-territorial application of foreign legislation and other measures, MOFCOM shall issue a prohibition order to the effect that, the relevant foreign legislation and other measures are not accepted, executed, or observed, but such a citizen, legal person or other organization of China may apply to MOFCOM for an exemption from compliance with such prohibition order. However, since the Order No. 1 is relatively new, the enforcement of it involves uncertainty in practice.

**We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.**

Pursuant to the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the "**Bulletin 7**"), an "indirect transfer" of PRC taxable assets, including a transfer of equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a "reasonable commercial purpose" of the transaction arrangement, factors to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly hold PRC taxable assets have real commercial nature, which is evidenced by their actual function and risk exposure; the duration of shareholders, existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be reported on with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available

preferential tax treatment under applicable tax treaties or similar arrangements. Late payment of applicable tax will subject the transferor to default interest. Gains derived from the sale of shares by investors through a public stock exchange will not be subject to PRC enterprise income tax pursuant to Bulletin 7 where such shares were acquired in a transaction through a public stock exchange.

There are uncertainties as to the application of Bulletin 7. Bulletin 7 may be determined by the tax authorities to be applicable to sale of the shares of our offshore subsidiaries or investments where PRC taxable assets are involved. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, or the sale of the shares in our offshore subsidiaries or investments. Our Company may be subject to filing obligations or taxes if our Company is the transferor in such transactions, and may be subject to withholding obligations if our Company is the transferee in such transactions, under Bulletin 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist with the filing under Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under Bulletin 7, for our previous and future restructuring or disposal of shares of our offshore subsidiaries or investments, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Bulletin 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Bulletin 7, or under Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source (關於非居民企業所得税源泉扣繳有關問題的公告), our income tax costs associated with such potential acquisitions or disposals will increase, which may have an adverse effect on our financial condition and results of operations.

**We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our global income could be subject to PRC withholding tax and enterprise income tax.**

We are a holding company incorporated under the laws of the Cayman Islands and hold interests in our PRC subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法) (the "**EIT Law**"), effective in January 2008, as amended on February 24, 2017 and December 29, 2018, and its implementation rules, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10.0% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement.

The EIT Law and EIT implementation rules also provide that if an enterprise incorporated outside China has its "de facto management bodies" within China, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25.0% on its global incomes. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, STA promulgated a circular, known as Circular 82, and partially amended by Circular 9 promulgated in January 2014, to clarify the certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises or PRC enterprise groups. Under Circular 82, a foreign enterprise is considered a PRC resident enterprise if all of the following

apply: (1) the senior management and core management departments in charge of daily operations are located mainly within China; (2) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in China; (3) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China; and (4) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in China. Further to Circular 82, STA issued a bulletin, known as Bulletin 45, effective in September 2011 and last amended on June 15, 2018 to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such "Chinese-controlled offshore incorporated resident enterprises." Bulletin 45 provides for, among other matters, procedures for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises that are registered outside China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT's criteria for determining the tax residence of foreign enterprises in general.

However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. However, if the PRC authorities were to subsequently determine, or any future regulation provides, that we should be treated as a PRC resident enterprise, we will be subject to the uniform 25.0% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC-resident enterprises are exempt from enterprise income tax, due to the relatively short history of the EIT Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

There remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC tax authorities, and the PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our shares may be materially affected.

**Payment of dividends is subject to restrictions under PRC law.**

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits is defined as our profits after taxes as determined under PRC GAAP less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable our company to make dividend distributions to its shareholders in the future, including periods for which our company's financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under HKFRS in certain respects, our company may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under HKFRS, or vice-versa. Accordingly, we may not receive sufficient distributions from our PRC subsidiaries. Failure by our operating subsidiaries in the PRC to pay dividends to us could have a negative impact on our cash flow and ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

## RISKS RELATING TO THE [REDACTED]

**There has been no prior public market for our Shares and there can be no assurance that an active market would develop.**

Prior to the [**REDACTED**], there has been no public market for our Shares. The initial [**REDACTED**] for our Shares was the result of negotiations between us and the Joint Representatives (for themselves and on behalf of the [**REDACTED**]) and the [**REDACTED**] may differ significantly from the market price for our Shares following the [**REDACTED**]. We have applied for [**REDACTED**] of and permission to deal in our Shares on the Stock Exchange. There is no assurance that the [**REDACTED**] will result in the development of an active, liquid public trading market for our Shares. 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. Furthermore, the price and trading volume of our Shares may be volatile. The following factors, among others, may cause the market price of our Shares after the [**REDACTED**] to vary significantly from the [**REDACTED**]:

- our financial results;
- stability of Hong Kong's economy and financial markets, particularly in light of the recent political unrest in the city;
- unexpected business interruptions resulting from natural disasters or power shortages;
- major changes in our key personnel or senior management;
- changes in laws and regulations in China;
- our inability to compete effectively in the video content market;
- our inability to obtain or maintain regulatory approval for our operations;
- fluctuations in stock market prices and volume;
- changes in analysts' estimates of our financial performance;
- political, economic, financial and social developments in China and Hong Kong and in the global economy; and
- involvement in material litigation.

In addition, shares of other companies listed on the Stock Exchange with operations and assets in China have experienced significant price volatility in the past. As a result, it is possible that our Shares may be subject to changes in price not directly related to our performance and as a result, investors in our Shares may suffer substantial losses.

**You will incur immediate and significant dilution and raising additional capital may cause further dilution or restrict our operation.**

The [**REDACTED**] of the [**REDACTED**] is higher than the net tangible asset value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of the [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in pro forma consolidated net tangible asset value. There can be no assurance that if we were to immediately liquidate after the [**REDACTED**], any assets will be distributed to Shareholders after the creditors' claims. If we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a shareholder. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, limitations on our ability to acquire or license intellectual property rights or declaring dividends, or other operating restrictions.

**There will be a time gap between pricing and trading of our Shares, and the price of our Shares when trading begins could be lower than the [REDACTED].**

The [**REDACTED**] of our Shares sold in the [**REDACTED**] is expected to be determined on the [**REDACTED**]. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Business Days after the [**REDACTED**]. As a result, investors may not be able to sell or otherwise deal in the Shares before the commencement of trading. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

**Future sales or perceived sales of a substantial number of our Shares in the public market following the [REDACTED] could materially and adversely affect the price of our Shares and our ability to raise additional capital in the future, and may result in dilution of your shareholding.**

Prior to the [**REDACTED**], there has not been a public market for our Shares. Future sales or perceived sales by our existing Shareholders of our Shares after the [**REDACTED**] could result in a significant decrease in the prevailing market price of our Shares. Only a limited number of the Shares currently outstanding will be available for sale or issuance immediately after the [**REDACTED**] due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our Shares in the public market or the perception that these sales may occur could significantly decrease the prevailing market price of our Shares and our ability to raise equity capital in the future.

**We are a Cayman Islands exempted company and, because judicial precedent regarding the rights of shareholders is more limited under the laws of the Cayman Islands than other jurisdictions, you may have difficulties in protecting your shareholder rights.**

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Companies Act and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited

judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in the jurisdictions where minority Shareholders may be located. See "Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law." As a result of all of the above, minority Shareholders may enjoy different remedies when compared to the laws of the jurisdiction such shareholders are located in.

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

Immediately following the completion of the [**REDACTED**] and the Capitalization Issue and without taking into account any Shares which may be issued pursuant to the exercise of the [**REDACTED**] or Shares which may be issued upon the exercise of options granted under the Share Option Scheme, our Controlling Shareholders will be entitled to exercise voting rights of 68.67% of the total issued share capital of our Company. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interest of our other Shareholders, the interests of our other Shareholders may be disadvantaged or harmed.

**As the [REDACTED] of our [REDACTED] is higher than our net tangible book value per share, purchasers of our Shares in the [REDACTED] may experience immediate dilution upon such purchases.**

The [**REDACTED**] of our [**REDACTED**] is higher than the net tangible book value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of our Shares in the [**REDACTED**] will experience an immediate dilution. Existing Shareholders will receive an increase in the net tangible asset value per share of their shares. If we issue additional Shares in the future, purchasers of our [**REDACTED**] may experience further dilution.

**We cannot assure you that we will declare and distribute any amount of dividends in the future.**

Our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries. Under applicable laws and the constitutional documents of our operating subsidiaries, the payment of dividends may be subject to certain limitations. The calculation of certain of our operating subsidiaries' profit under applicable accounting standards differs in certain respects from the calculation under HKFRSs. As a result, our operating subsidiaries may not be able to pay a dividend in a given year even if they have profit as determined under HKFRSs. Accordingly, since we derive all of our earnings and cash flows from dividends paid by our operating subsidiaries, we may not have sufficient distributable profit to pay dividends to our Shareholders. In addition, any future dividend declaration and distribution will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and PRC laws, including

(where required) the approvals from our Shareholders and our Directors. Our Shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board. Moreover, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they deem appropriate. As a result, we cannot assure you that we will make any dividend payments on our Shares in the future.

**We have significant discretion as to how we will use the net [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.**

Our management may spend the net [**REDACTED**] from the [**REDACTED**] in ways with which you may not agree or which do not yield a favorable return to our shareholders. We plan to use the net [**REDACTED**] from the [**REDACTED**] to continue the research and development activities of our product candidates to commercialization, strengthen our research and development capabilities, and to expand our product portfolio, among others. For details, please refer to the "Future Plans and Use of [**REDACTED**] — Use of [**REDACTED**]" in this document. However, our management will have discretion as to the actual application of our net [**REDACTED**]. You are entrusting your funds to our management, whose judgment you must depend on, for the specific uses we will make of the net [**REDACTED**] from this [**REDACTED**].

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

This document contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "aim", "anticipate", "believe", "continue", "could", "expect", "estimate", "intend", "may", "plan", "potential", "predict", "project", "propose", "seek", "should", "will", "would" or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning future operations, liquidity and capital resources. Investors of our 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 control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations that our plans or objectives will be achieved 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 document for further details.

**Certain facts, forecasts and statistics contained in this Document are derived from a third-party report and publicly available official sources and they may not be reliable.**

Certain facts, forecasts and other statistics contained in this Document relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications or other third-party reports. We have taken reasonable care in the reproduction or extraction of the official government publications or other third-party reports for the purpose of disclosure in this Document, however, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the [**REDACTED**] or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such statistics, which may not

be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this Document may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

**You should read the entire this document carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].**

Subsequent to the date of this document but prior to the completion of the [**REDACTED**], there may be press and media coverage regarding us and the [**REDACTED**], which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [**REDACTED**]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.

In preparation for the [**REDACTED**], our Company has sought [and has been granted] the following waivers from strict compliance with the relevant provisions of the Listing Rules.

## WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Our management, business operations and assets are primarily located outside Hong Kong. The principal management headquarters of our Group are primarily based in mainland PRC. Our Company considers that our Group's management is best able to attend to its functions by being based in the mainland PRC. None of our executive Directors is or will be ordinarily resident in Hong Kong after the [**REDACTED**] of our Company. Our Directors consider that relocation of our executive Directors to Hong Kong will be burdensome and costly for our Company, and it may not be in the best interests of our Company and our Shareholders as a whole to appoint additional executive Directors who are ordinarily resident in Hong Kong. As such, we do not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has [granted] us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, provided that our Company implements the following arrangements:

(1) 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 appointed are Mr. Zhang and Ms. Leung Ching Ching (梁晶晶) ("**Ms. Leung**"). Ms. Leung is situated and based in Hong Kong. Each of our authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email;

(2) As and when the Stock Exchange wishes to contact our Directors on any matters, each of our authorized representatives has the means to contact all of our Directors (including the independent non-executive Directors) promptly at all times;

(3) Although our executive Directors are not ordinary residents in Hong Kong, each of our Directors possesses or can apply for valid travel documents to visit Hong Kong and is able to meet with the Stock Exchange within a reasonable period of time, when required;

(4) We have appointed Somerley Capital Limited as our compliance adviser. Pursuant to Rule 3A.19 of the Listing Rules, our authorized representatives, Directors and senior management will provide promptly such information and assistance as the compliance adviser reasonably require in connection with the performance of the compliance adviser's duties as set forth in Chapter 3A of the Listing Rules, and Somerley Capital Limited will act as an additional channel of communication between the Stock Exchange and us from the [**REDACTED**] to the date when our Company distribute our annual report of our financial results for the first full financial year commencing after the [**REDACTED**]; and

(5) We have provided the Stock Exchange with the contact details of each Director (including their respective mobile phone number, office phone number and e-mail address).

Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives, the Directors and/or the compliance adviser in accordance with the Listing Rules.

## WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary of an issuer must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Our Company had appointed Ms. HAN Zhimei ("**Ms. Han**") and Ms. Leung as our joint company secretaries. Ms. Leung is an associate member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom and The Hong Kong Institute of Chartered Secretaries, and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Ms. Han has been responsible for business operations and financial management of our Company since March 2017. She has extensive experience in accounting and corporate finance but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules. While Ms. Han may not be able to solely fulfill the requirements of the Listing Rules, our Company believes that it would be in the best interests of our Company and the corporate governance of our Company to appoint Ms. Han as our joint company secretary due to her thorough understanding of the internal administration and business operations of our Group.

Accordingly, while Ms. Han does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Ms. Han may be appointed as a joint company secretary of our Company. Pursuant to the Guidance Letter HKEX-GL108-20, the waiver will be for a fixed period of time ("**Waiver Period**") and on the following conditions:

(i) the proposed company secretary must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 ("**Qualified Person**") and is appointed as a joint company secretary throughout the Waiver Period; and

(ii) the waiver can be revoked if there are material breaches of the Listing Rules by the issuer.

The waiver is valid for an initial period of three years from the [**REDACTED**], and is granted on the condition that Ms Leung, as a joint company secretary of our Company, will work closely with, and provide assistance to, Ms. Han in the discharge of her duties as a joint company secretary and in gaining the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and to become familiar with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. Given Ms. Leung's professional qualifications and experience, she will be able to explain to both Ms. Han and our Company the relevant requirements under the Listing Rules. Ms. Leung will also

assist Ms. Han in organizing Board meetings and Shareholders' meetings of our Company as well as other matters of our Company which are incidental to the duties of a company secretary. Ms. Leung is expected to work closely with Ms. Han, and will maintain regular contact with Ms. Han, the Directors and the senior management of our Company. The waiver will be revoked immediately if Ms. Leung ceases to provide assistance to Ms. Han as a joint company secretary for the three-year period after the [**REDACTED**] or where there are material breaches of the Listing Rules by our Company. In addition, Ms. Han will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the three-year period from the [**REDACTED**].

In the course of preparation of the [**REDACTED**], Ms. Han attended a training session on the respective obligations of the Directors and senior management and our Company under the relevant Hong Kong laws and the Listing Rules provided by our Company's Hong Kong legal adviser, and has been provided with the relevant training materials. Our Company will further ensure that Ms. Han has access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange, and to receive updates on the latest changes to the applicable Hong Kong laws, regulations and the Listing Rules. Furthermore, both Ms. Leung and Ms. Han will seek and have access to advice from our Company's Hong Kong legal and other professional advisers as and when required.

Our Company has appointed Somerley Capital Limited as the Compliance Adviser upon our [**REDACTED**] pursuant to Rule 3A.19 of the Listing Rules, which will act as our Company's additional channel of communication with the Stock Exchange, and provide professional guidance and advice to our Company and its joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations in Hong Kong from the [**REDACTED**] to the date when our Company distribute our annual report of our financial results for the first full financial year commencing after the [**REDACTED**].

Prior to the end of the three-year period, the qualifications and experience of Ms. Han and the need for ongoing assistance of Ms. Leung will be further evaluated by our Company. We will liaise with the Stock Exchange to enable it to assess whether Ms. Han, having benefited from the assistance of Ms. Leung for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

See "Directors and Senior Management" in this document for further information regarding the qualifications of Ms. Han and Ms. Leung.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon [**REDACTED**]. Accordingly, we have applied to the Stock Exchange for, [and the Stock Exchange has granted], waivers from strict compliance with (i) the announcement, (ii) independent Shareholders' approval requirement, (iii) the annual cap requirement and (iv) the requirement of limiting the term of the continuing connected transactions as set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, see "Continuing Connected Transactions" in this document.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## DIRECTORS

| Name | Address | Nationality |
|---|---|---|
| *Executive Directors* | | |
| ZHANG Yu (張玉) | 10-3-102,<br>Huarun Gongyuanjiuli,<br>Daxing District,<br>Beijing,<br>PRC | Chinese |
| ZHANG Hui (張輝) | Room 201, Unit 2,<br>Basement 1 to Floor 2, Building 3,<br>No. 29 Leyuan Road,<br>Daxing District,<br>Beijing,<br>PRC | Chinese |
| *Non-executive Directors* | | |
| GENG Jiaqi (耿嘉琦) | Room 405, Floor 29,<br>District 13,<br>Heping Street,<br>Chaoyang District,<br>Beijing,<br>PRC | Chinese |
| ZHAI Feng (翟鋒) | Room 1201,<br>Building 4,<br>Shiqiao International Trade Apartment,<br>No. 16, East Third Ring Middle Road,<br>Chaoyang District,<br>Beijing,<br>PRC | Chinese |
| *Independent Non-executive Directors* | | |
| WANG Jiping (王繼萍) | Room 101, Unit 3,<br>Building 13, WeHouse,<br>No. 13 Changqingyuan Nanli District 2,<br>Haidian District,<br>Beijing,<br>PRC | Chinese |

| Name | Address | Nationality |
|---|---|---|
| CHAN Peng Kuan (陳炳鈞) | Flat B8, 14/F,<br>Viking Garden,<br>40 Hing Fat Street,<br>North Point,<br>Hong Kong | Chinese<br>(Hong Kong) |
| LI Xiaopei (李小培) | No.66 Xinji Street,<br>Dazhuang, Si County,<br>Suzhou, Anhui Province,<br>PRC | Chinese |

For further information regarding our Directors, please see "Directors and Senior Management".

## PARTIES INVOLVED IN THE [REDACTED]

**Joint Sponsors**

**Morgan Stanley Asia Limited**
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

**China International Capital Corporation Hong Kong Securities Limited**
29/F One International Finance Centre
1 Harbour View Street
Central
Hong Kong

[**REDACTED**]

[**REDACTED**]

| | |
|---|---|
| **Legal Advisers to the Company** | *As to Hong Kong and United States laws:*<br>**O'Melveny & Myers**<br>31/F, AIA Central<br>1 Connaught Road Central<br>Hong Kong<br><br>*As to PRC law:*<br>**Tian Yuan Law Firm**<br>10/F, Tower B, China Pacific Insurance Plaza<br>28 Fengsheng Lane<br>Xicheng District<br>Beijing 100032<br>China<br><br>*As to Cayman Islands law:*<br>**Campbells**<br>35th Floor, Room 3507<br>Edinburgh Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong |
| **Legal Advisers to the [REDACTED]** | *As to Hong Kong and United States laws:*<br>**Davis Polk & Wardwell**<br>18/F, The Hong Kong Club Building<br>3A Chater Road<br>Central<br>Hong Kong<br><br>*As to PRC law:*<br>**Jingtian & Gongcheng**<br>34/F, Tower 3, China Central Place<br>77 Jianguo Road<br>Beijing, PRC |
| **Legal Advisers to CITRON PE Funds II Limited and Panmao Shanghai** | *As to Hong Kong law*<br>**Wilson Sonsini Goodrich & Rosati**<br>Suite 1509, 15/F, Jardine House<br>1 Connaught Place<br>Central, Hong Kong |

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|---|---|
| **Auditor and Reporting Accountant** | **PricewaterhouseCoopers**<br>Certified Public Accountants<br>Registered Public Interest Entity Auditor<br>22/F, Prince's Building<br>Central<br>Hong Kong |
| **Industry Consultant** | **Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.**<br>2504 Wheelock Square<br>1717 Nanjing West Road<br>Shanghai 200040<br>PRC |
| **Compliance Adviser** | **Somerley Capital Limited**<br>20/F, China Building<br>29 Queen's Road Central<br>Hong Kong |
| **Receiving Bank[s]** | [●]<br>[Address] |

| | |
|---|---|
| **Registered office in the Cayman Islands** | P.O. Box 2547<br>Grand Cayman KY1-1104<br>Cayman Islands |
| **Corporate headquarters** | 11/F, China Nuclear E&C Building<br>20 Ganluyuan Nanli<br>Chaoyang District<br>Beijing, PRC |
| **Principal place of business in Hong Kong** | Level 54, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Company's website** | **www.yonghegroup.cn**<br>*(The contents on this website do not form part of this document)* |
| **Joint Company Secretaries** | Ms. HAN Zhimei<br>11/F, China Nuclear E&C Building<br>20 Ganluyuan Nanli<br>Chaoyang District<br>Beijing, PRC<br><br>Ms. LEUNG Ching Ching<br>*(Fellow of the Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute (formerly the Institute of Chartered Secretaries and Administrators) in the United Kingdom)*<br>Level 54, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Authorized representatives** | Mr. ZHANG<br>10-3-102,<br>Huarun Gongyuanjiuli,<br>Daxing District,<br>Beijing,<br>PRC<br><br>Ms. LEUNG Ching Ching<br>Level 54, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |

# CORPORATE INFORMATION

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|---|---|
| **Audit Committee** | CHAN Peng Kuan *(Chairman)*<br>GENG Jiaqi<br>LI Xiaopei |
| **Remuneration Committee** | CHAN Peng Kuan *(Chairman)*<br>ZHANG Yu<br>LI Xiaopei |
| **Nomination Committee** | ZHANG Yu *(Chairman)*<br>CHAN Peng Kuan<br>WANG Jiping |
| **Principal share registrar and transfer office** | Campbells Corporate Services Limited<br>Floor 4, Willow House, Cricket Square<br>Grand Cayman KY1-9010<br>Cayman Islands |
| **Hong Kong Share Registrar** | Tricor Investor Services Limited<br>Level 54, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Principal bankers** | Ping An Bank, Beijing Branch<br>G/F, Yuan Yang Building<br>158 Fuxingmennei Avenue<br>Beijing, PRC<br><br>China Merchants Bank, Beijing Branch<br>1/F, 156 Fuxingmennei Avenue<br>Xicheng District<br>Beijing, PRC |

*Certain information and statistics set out in this section have been extracted from various official government publications, market data providers and an Independent Third Party source, Frost & Sullivan. The report (the "**Frost & Sullivan Report**") prepared by Frost & Sullivan in June 2021 and cited in this document was commissioned by us. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. 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. The information from official government sources has not been independently verified by our Company, the Joint Sponsors, any of their respective directors, employees, agents or advisers or any other person or party involved in the* [**REDACTED**]*, and no representation is given as to its accuracy, fairness and completeness. For a discussion of the risks relating to our industry, please refer to the section headed "Risk Factors".*

## THE CONSUMER MEDICAL SERVICE MARKET IN CHINA

The consumer medical service refers to discretionary medical services primarily for improving quality of life and not mainly covered by national health insurance. The consumer medical service covers a wide range of services such as hair-related healthcare service, assisted reproductive service, dental service, etc.

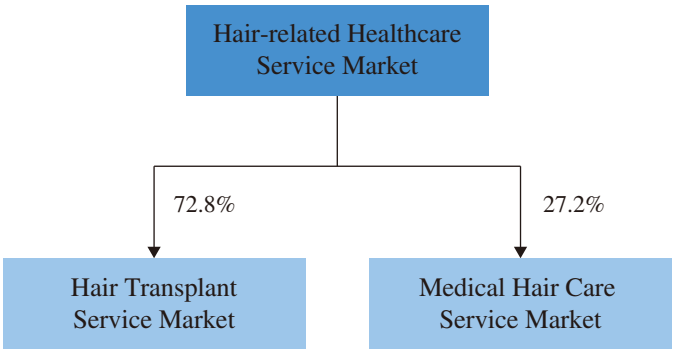
Most of the consumer medical service providers in general are private medical institutions. In this market, specialist medical institutions tend to be at the forefront of diagnosis and treatment within specialist disciplines. Among these specialist medical institutions, chain clinic brands generally have higher brand awareness and offer high quality services, therefore business models based on specialist clinic chains have been more widely adopted in the consumer medical service market in China.

With rising household disposable income and growing health awareness, the consumer medical service market has experienced robust growth in the past few years. The market size reached RMB697.9 billion in 2020, rising from RMB392.7 billion in 2016, representing a CAGR of 15.5%. The market is expected to further increase to RMB1,647.0 billion by 2025 and RMB3,311.9 billion by 2030.

## THE HAIR-RELATED HEALTHCARE SERVICE MARKET IN CHINA

### Overview

Hair-related healthcare service is one type of consumer medical service. As set forth in the table below, the hair-related healthcare service market in China can be divided into the hair transplant service market and medical hair care service market based on whether or not surgery is performed. In 2020, the hair transplant service market and the medical hair care service market accounted for 72.8% and 27.2% of hair-related healthcare service market in China, respectively.




*Source: Frost & Sullivan*

The hair-related healthcare service market grew significantly since 2016. The market size reached RMB18.4 billion in 2020, rising from RMB7.8 billion in 2016, representing a CAGR of 23.9%. The market is expected to further increase to RMB56.2 billion by 2025 and RMB138.1 billion by 2030, respectively.

## THE HAIR TRANSPLANT SERVICE MARKET IN CHINA

### Overview

Hair transplant services are relatively safe surgical operations that address the hair-related problems. Hair transplant needs to be performed in professional medical institutions, such as our hair transplant clinics network in China. Hair transplant is a surgical procedure in which hair follicles are extracted from the back occipital area with high quality hair follicles and transplanted to bare and thinning hair areas. Compared with other non-transplant hair health treatments, hair transplant treatment has a significant effect on alopecia, spotted alopecia, and baldness. Considering limited supply of qualified physicians in China and stringent regulatory environment, new entrants will face challenges in the hair transplant service market in China.

### Market Size and Penetration Rate

Alopecia is the major hair-related problem presenting a high market demand for treatment. The National Health Commission's survey has shown that China's alopecia population reached 250.9 million in 2020, among which approximately 163.5 million were male and 88.6 million were female. The alopecia population in China is expected to remain in a large size in the next decades and continues to increase to 258.0 million by 2030.

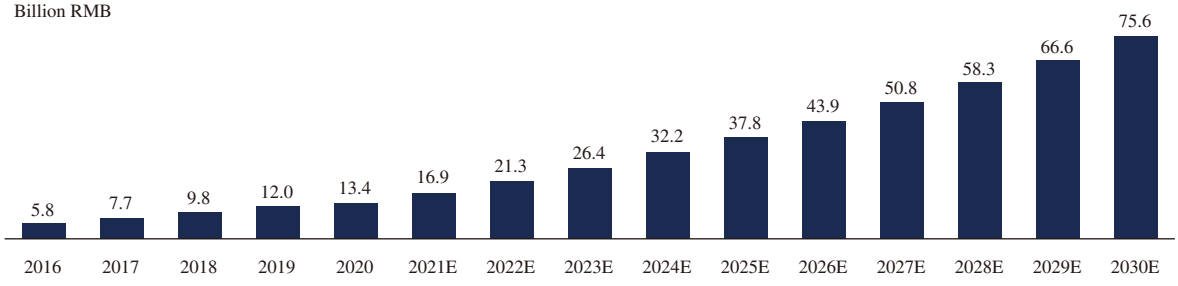
While some topical treatments and even holistic approaches may relieve the symptoms of severe alopecia, hair transplant treatment has a relatively shorter recovery period and more visible treatment results.

In recent years, as affected by a combination of factors, including the increasing disposable income *per capita* of Chinese residents, elevated self-awareness of appearance, and the advances in hair transplants technology, China's hair transplant service market grew rapidly from RMB5.8 billion in 2016 to RMB13.4 billion in 2020 with a CAGR of 23.4%. However, the number of people receiving hair transplant services in China is relatively low compared to the actual number of people suffering from

alopecia in China. In 2020, there were only approximately 516,000 hair transplant procedures performed in China. As a result, the hair transplant penetration rate in China (calculated by dividing the number of recipients of hair transplant procedures by the number of alopecia patients) was only approximately 0.2% in 2020, indicating a huge unmet market demand and great growth potential. Further, with the advent of aesthetic hair transplant, the expansion of hair transplant options, and service innovations, the customer base for hair transplant in China is expected to expand from alopecia patients to a larger group of consumers seeking to enhance appearance through medical treatment, which is projected to drive China's hair transplant service market to RMB75.6 billion in 2030. The following chart sets forth the historical and forecasted market size of hair transplant services in China:

**Market Size of Hair Transplant Service in China, 2016-2030E**

| Time Period | CAGR |
|---|---|
| CAGR (2016-2020) | 23.4% |
| CAGR (2020-2025E) | 23.0% |
| CAGR (2025E-2030E) | 14.9% |




*Source: Expert interview, Frost & Sullivan*

## Growth Drivers

The following key factors have primarily driven the growth of the hair transplant service market in China:

- *Increasing per capita income of Chinese residents and affordability of hair transplant services.* From 2016 to 2020, the disposable income *per capita* of Chinese residents increased from RMB23,821.0 to RMB32,189.0 with a CAGR of 7.8% and in particular, the disposable income *per capita* of Chinese urban residents reached RMB43,834 in 2020. In contrast, the average price of a hair transplant surgery remained largely stable with a slight increase during the same periods. In 2016, the price of a hair transplant surgery generally ranged from RMB10,000 to 20,000, and in 2020, such price generally ranged from RMB20,000 to RMB30,000. It is expected that the disposable income *per capita* of Chinese residents will further increase to RMB46,902.4 in 2025 with a CAGR of 7.8% from 2020 to 2025, and reach RMB66,090.7 in 2030 with a CAGR of 7.1% from 2025 to 2030. With the increase in disposable income, an increasing number of Chinese consumers are able to afford the out-of-pocket bills relating to hair transplant. Moreover, as a result of the increase in spending power, Chinese consumers are willing to spend more on hair-related healthcare services, including hair transplant.

- *Prevalence of hair-related problems.* A growing number of people of different ages, genders and occupations have been suffering from hair-related problems. Certain severe hair-related problems such as baldness and follicular closure, can only be affectively solved by hair transplants. However, a low hair transplant service market penetration rate of 0.21% indicates significant unmet needs.

- *Increasing investment on consumer education.* As the market expands, there are diversified marketing channels to educate consumers on hair transplants. Consumers will get much easier access to hair transplant knowledge and, as a result, are more likely to accept the hair transplant treatments. It will help the public to accept hair transplant as a reliable solution to address hair-related problems.

- *Development of hair transplant techniques.* Technological refinement drives the market forward. From FUE to microneedle hair transplant technology, the hair transplant technique innovation enables minimal scalp trauma, fast recovery, promising treatment results, high density and natural direction of hair growth after surgery.

- *More multi-site practice medical professionals.* With the implementation of the physician multi-site practice policy which permits physician to practice in multiple sites, more physicians can practice in hair transplant institutions to offer their services, accelerating the professionalism and accessibility of the market.

**Future Trends**

The hair transplant service market in China is expected to be influenced by the following trends:

- *Rapid growth in the consumer group.* Currently, with the improvement of aesthetic sense and higher expectations and requirements for appearance, both male and female customers in China have raised their attention to hair-related problems such as thinning hair and imperfect hairline. This contributes to the consumer base.

- *Consumer education and brand awareness enhancement.* As hair transplant service is one type of consumer medical service, which requires long-term investment on consumer education. This continuing education ensures rapid growth in market size and penetration rate. With the market expansion, there is an increasing brand recognition and customer stickiness.

- *Penetration in lower-tier cities.* Lower-tier cities and rural areas in China are becoming more urbanized and wealthy, and are increasingly able to afford higher quality hair transplant services. Besides, public medical resources in low-tier cities are limited, most public hospitals even do not offer hair transplant services, this further promotes the development of private hair transplant medical institutions. Therefore, consumers from lower-tier cities have become a key target group of market participants. With the penetration in lower-tier cities by hair transplant service providers, chain hair transplant institutions will gradually invade and even occupy the market of independent local hair transplant institutions.

- *Transparent and standardized service for hair transplant.* As these is an increasing consumer awareness on the hair transplants and the market becomes more mature and regulated, there is a need for more standardized and transparent services.

- *Further market segregation* As the degree of alopecia varies between clients of different genders, ages and regions, the specific hair transplant plan will be adjusted accordingly. With the improvement of customers' aesthetic sense and the higher expectations and requirements for the quality of service, an increasing number of consumers prefer personalized hair transplant than traditional hair transplant treatment. The development of personalized hair transplants is expected to become a new trend.

- *One-stop comprehensive hair management services.* The hair transplant service market shows the trend from hair transplant medical institution to one-stop comprehensive hair management medical institutions, which means that all needs of hair treatment can be met by a one-stop service at one medical institution. This mainly because (i) hair-related problems are complex, which require professional diagnosis and different treatment solutions. Comprehensive hair management medical institutions can satisfy the varied demands from consumers suffering from all hair-related problems, not just alopecia; (ii) to eradicate hair-related problems, it requires a comprehensive therapeutic plan combining various treatment solutions to maintain and reinforce effects; and (iii) in order to achieve optimal treatment results, it is critical to choose the most suitable treatment mix from the wide range of treatment options for hair-related problems, including medicines, professional or medical devices, possible surgeries and hair care products. Only a one-stop comprehensive hair management medical institution can fulfil all requirements.

**Entry Barrier**

Despite the growth drivers discussed above, significant entry barriers remain in the hair transplant service market in China:

- *Brand reputation.* Even though hair transplant is one of the least risky surgery, patients tend to choose hair transplant service institutions with a strong reputation, as such institutions usually have experienced physicians and robust clinic networks which enable them to provide comprehensive post-treatment services and, most importantly, a proven track record of having performed a significant number of surgeries. It is difficult for new market entrants to establish a good brand reputation and achieve stable patient flow in a short time.

- *Skilled physicians*. As a type of minimally invasive surgery, hair transplant needs to be performed through tiny incisions, the procedure of which requires more precision than traditional surgery. As such, the hair transplant surgery should be performed by qualified physicians with rigorous professional training and long-time practical experience.

- *Medical licenses*. The hair transplant service market in China is subject to strict regulations. All hair transplant service providers shall obtain valid medical licenses. In addition, it has strict and delicate requirements on the medical conditions and the environment of care which can hardly be met by unprofessional institutions.

- *Chain medical service capability.* As hair transplant treatment is mainly an one-off service, customers place great importance on the safety and treatment outcome. Therefore, the chain medical service capability is a strong competitive advantage, which can ensure that all clinics in the network have a consistent high standard of medical quality and operation capability.

- *Comprehensive diagnosis and treatment capability.* As hair-related problems are often caused by multiple factors and can hardly be solved by any single type of treatment method, the comprehensive diagnosis and treatment capability has become critical to the service providers. Moreover, hair transplant service usually needs to be accompanied by effective medical hair care services. It is difficult for late entrants to acquire comprehensive hair management service capabilities in a short time.

**Limitations and challenges**

The following factors are expected to limit, or bring threats and challenges to, the development of hair transplant industry in China:

- *Stringent regulatory scrutiny.* In order to strengthen the regulation and supervision of the industry, the relevant authorities have established several industry associations, such as the Hair Medicine Branch of the Chinese Association of Plastic and Aesthetics (中國整形美容協會毛髮醫學分會) and the Hair Medicine Branch of the Chinese Association of Integrative Medicine Board of Cosmetic Surgery (中國中西醫結合學會醫學美容專業委員會毛髮分會), to compile unified industry standards and assist the government in regulating and supervising the hair transplant industry. The strengthening regulatory scrutiny is expected to facilitate the healthy and orderly development of the industry, while the market participants who fail to meet the industry standards or comply with the evolving regulatory demands may find it increasingly difficult to compete with others in the industry.

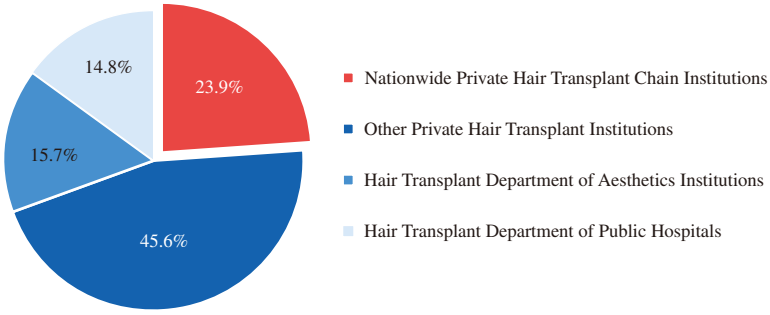
- *Uneven development.* Only a few industry leaders, mostly private hair transplant chains, have the capital resources to expand rapidly and the capabilities to provide quality assurance for their services during their expansion. As a result, such market players have witnessed, and are expected to continue to witness a faster growth rate than others, creating a high barrier for new entrants and causing the market to develop towards an oligopoly structure. Such uneven development of market players may hinder the growth of the entire industry in the long run.

- *Imperfect physician evaluation criteria.* The hair transplant industry is highly dependent on the skill of physicians, which will directly affect the results and effects of the surgery. However, unlike other surgical departments, the evaluation criteria for hair transplant physicians have not yet been consummated, which affords limited control over the service quality and may limit the development of the entire industry.

## Market Players and Competitive Landscape

There is a wide range of medical institutions providing hair transplant services in China, including both public hospitals (hair transplant department) and private medical institutions which include chain hair transplant institutions, independent local hair transplant institutions and hair transplant department of aesthetics institutions. Public hospitals in China seldom conduct hair transplant, leaving the huge and fast-growing demand for hair transplants among patients in China unmet. In contrast, private medical institutions, leveraging their rich experience in hair transplant surgeries, are better positioned to fulfill such unmet medical needs, which promises great growth potential. Further, as compared with independent hair transplant institutions, hair transplant chains are more capable of providing quality assurance for their hair transplant services, and will be preferred by potential patients.

The chart below sets forth the market share of these market players in the hair transplant service market in China in 2020.




*Source: Expert interview, Frost & Sullivan*

*Notes:*

(1) Nationwide Private Hair Transplant Chain Institutions refer to our Group, Group A, Group B and Group C as set forth below.

(2) Other Private Hair Transplant Institutions primarily include independent local hair transplant institutions and other regional hair transplant chain institutions.

In 2018, 2019 and 2020, we accounted for a market share of approximately 9.4%, 10.0% and 10.5%, respectively in China in terms of revenue generated from hair transplant services in the same periods. In addition, in 2020, we ranked first in terms of various key financial and operational indicators among the four top market players, all of which are nationwide private hair transplant chain institutions. Details of our rankings are set forth in the tables below.

**Top Market Players in Hair Transplant Market in China by Revenue Generated From Hair Transplant Services in 2020**

| Rank | Medical Institution | Background | Revenue Generated from Hair Transplant Services | Market Share |
|---|---|---|---|---|
| | | | *(RMB millions)* | |
| 1 | Our Group | We are a nationwide private hair transplant chain institution and has been providing hair transplant services in China under the brand nameYonghe since 2010. | 1,413 | 10.5% |
| 2 | Group A | A nationwide private hair transplant chain institution founded in 1997 in China. | 710 | 5.3% |
| 3 | Group B | A nationwide private hair transplant chain institution founded in 2001 in China. | 600 | 4.5% |
| 4 | Group C | A nationwide private hair transplant chain institution founded in 2005 in China. | 485 | 3.6% |

**Top Market Players in Hair Transplant Market in China by Number of Patients Receiving Hair Transplant Services in 2020**

| Rank | Medical Institution | Number of Patients Receiving Hair Transplant Services | Market Share |
|---|---|---|---|
| | | *(thousand)* | |
| 1 | Our Group | 51 | 9.9% |
| 2 | Group B | 37 | 7.2% |
| 3 | Group A | 30 | 5.8% |
| 4 | Group C | 25 | 4.8% |

**Top Market Players in Hair Transplant Market in China by Number of In-Network Clinics in 2020**

| Rank | Medical Institution | Number of In-network Clinics | Market Share[(1)] |
|---|---|---|---|
| 1 | Our Group | 48 | 3.7% – 4.8% |
| 2 | Group C | 32 | 2.5% – 3.2% |
| 3 | Group B | 30 | 2.3% – 3.0% |
| 4 | Group A | 29 | 2.2% – 2.9% |

**Top Market Players in Hair Transplant Market in China by Number of Registered Physicians in 2020**

| Rank | Medical Institution | Number of Registered Physicians | Market Share[(2)] |
|---|---|---|---|
| 1 | Our Group | 189 | 17.2% – 21.0% |
| 2 | Group B | 70 | 6.4% – 7.8% |
| 3 | Group A | 60 | 5.5% – 6.7% |
| 4 | Group C | 55 | 5.0% – 6.1% |

*Notes:*

(1) The respective market share of top market players in terms of the number of in-network clinics is presented in a range based on, among others, the respective market player's revenue and number of patients receiving hair transplant surgeries in 2020, as well as the extensive expert interviews conducted by Frost & Sullivan. A specific number for the total number of hair transplant clinics in China is unavailable, primarily because there is no official statistical caliber for the total number of hair transplant medical institutions nationwide, and a medical institution does not need a special permit or clearly includes "hair transplant" in their names to conduct hair transplant surgeries.

(2) The respective market share of top market players in terms of the number of registered physicians is presented in a range based on, among others, the respective market player's revenue and number of patients receiving hair transplant surgeries in 2020, as well as the extensive expert interviews conducted by Frost & Sullivan. A specific number for the total number of registered physicians in hair transplant medical institutions in China is unavailable, primarily because a specific number for the total number of hair transplant clinics in China is unavailable for the reasons stated in Note (1) above, and registered physicians do not need a special license to perform hair transplant surgeries in China.

*Source: Expert interview, Frost & Sullivan*

## THE MEDICAL HAIR CARE SERVICE MARKET IN CHINA

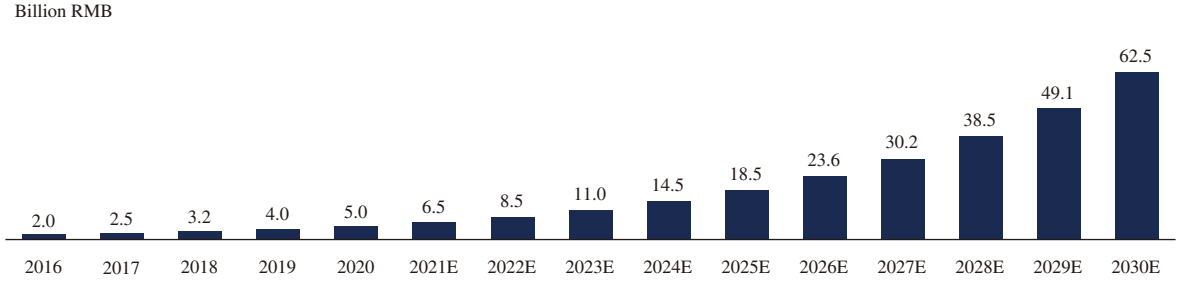
### Overview

Medical hair care services generally refer to the non-surgical treatments provided by licensed medical institutions to address various scalp and hair problems, such as hair loss, soft hair, itching scalp and oily scalp. Medical hair care service is able to address the diversified needs of a larger patient pool with various scalp and hair problems, including but not limited to hair loss.

In 2020, the overall market size reached RMB5.0 billion, representing a CAGR of 25.4% between 2016 and 2020. However, the penetration rate of medical hair care services in alopecia patients (calculated by dividing the number of recipients of medical hair care procedures by the number of alopecia patients) in China in 2020 was only 1.0%, indicating a great growth potential with an improved patient education efforts. Furthermore, in addition to alopecia patients, medical hair care service is able to address the diversified needs of a larger patient pool with various other scalp and hair problems. Attributable to the enlarging patient pool, as well as other features of medical hair care services as disclosed in detail below, it is believed that the medical hair care service market in China is still in its infancy and is expected to grow at a CAGR of 29.8% from 2020 to 2025 and reach RMB62.5 billion by 2030. The following chart sets forth the historical and forecasted market size of medical hair care services in China.

**Market Size of Medical Hair Care Services in China, 2016-2030E**

| Time Period | CAGR |
|---|---|
| 2016-2020 | 25.4% |
| 2020-2025E | 29.8% |
| 2025E-2030E | 27.6% |




*Source: Expert interview, Frost & Sullivan*

### Features

The medical hair care service market has the following features:

- *High repurchase rate and customer stickiness.* The customers tend to choose the brand that they previously consumed and trusted for medical hair care services, since the services are medical-related and usually need periodic treatment to achieve and maintain the treatment effects. Medical hair care service providers with brand reputation or professional service will be trusted and preferred by clients in the long run. This high repurchase rate contributes to consumer stickiness.

- *Large potential patient pool.* Medical hair care service is able to satisfy treatment needs of patients at various hair loss stages and attend to both female and male patients of different ages. As a result, medical hair care services are expected to be fit for and accepted by a large size of potential patient pool.

- *Significant supplement to hair transplant service market.* Medical hair care service plays a key role in the hair transplant services. The medical hair care services provide an important pre- and post-operative supplement to hair transplant services as well as a long-term maintenance solution for patients suffering varying degree of hair-related problems.

**Growth Drivers**

The following key factors have primarily driven the growth of the medical hair care service market in China:

- *Non-surgical and more affordable.* For those patients with hair-related problems at early stage, they can seek medical hair care treatment. Medical hair care treatment is non-surgical and more affordable for those patients, which is easy decision-making for potential patients.

- *Effective treatments compared with non-medical hair restoration solutions.* Medical hair care services are provided by medical professionals and the treatments include pharmaceuticals and medical procedures using professional medical devices, which are more reliable and effective as compared with non-medical hair restoration solutions.

- *Growing demand.* A growing number of people have been suffering from a series of hair-related problems at various stages such as folliculitis and shedding hair. Medical hair care treatment is a convenient and affordable treatment option to address the diversified needs of a larger patient pool with various scalp and hair problems, including but not limited to hair loss. However, even assuming that the medical hair care service merely targets alopecia patients, the penetration rate of medical hair care services (calculated by dividing the number of recipients of medical hair care procedures by the number of alopecia patients) in China in 2020 was only 1.0%, indicating a great growth potential with an improved patient education efforts.

**Future Trends**

The medical hair care service market in China is expected to be influenced by the following trends:

- *Increasing market share.* The current size of the medical hair care service market is relatively small compared to hair transplant service market. However, it shows significant growth rate. The medical hair care service market is projected to account for 32.9% and 45.3% of China's total hair-related healthcare service market by 2025 and 2030. Considering its huge customer base, large room for chain expansion, as well as customers' need for periodic treatment, the medical health care service is expected to become the main growth driver of the hair-related healthcare service market in the future.

- *Growing importance of multi-disciplinary treatment.* Due to the complexity of hair-related disease, multi-discipline treatment, which requires combination among various disciplines such as dermatology and endocrinology, enables a more systematic and comprehensive medical hair care treatment plan for patients.

- *Rise of private medical institutions.* Public hospitals are unable to fully meet the rapid growth in demand for medical hair care services, especially in low-tier cities. This creates market opportunities for private medical institutions which may operate with more flexibility and can offer more personalized care to patients. As such, private medical institutions are expected to continue to capture future growth opportunities in this underserved market.

- *One-stop.* Comprehensive hair management institutions are pursuing to provide the full cycle of care from hair-related disease screening and diagnosis to hair transplant treatment, to post-treatment rehabilitation, and to medical hair care, which we expect will further enlarge the medical hair care service market in China.

**Limitations and challenges**

The following factors are expected to limit, or bring threats and challenges to, the development of medical hair care industry in China:

- *Excessive marketing.* Medical hair care service market in China is still in its infancy and many new entrants and small market players in the industry tend to exaggerate the effectiveness of medical hair care products and solutions, which, if not properly controlled, may negatively affect consumers' attitude towards the entire industry in the long run.

- *Insufficient regulation.* As of the Latest Practicable Date, there was no applicable laws and regulations in China specifically regulating the medical hair care service industry, and no industry associations had been established to supervise the market players as well, which may affect the healthy development of the industry.

- *High degree of substitutability*. Currently many medical hair care products and services available in the China market are similar and interchangeable. Market players who fail to assure service quality and continue to offer innovative services and products may find it difficult to differentiate themselves from others, and might be immersed in a "price war" as a result, which is expected to have a negative impact on the overall development of the industry.

**Market Players and Competitive Landscape**

The medical hair care service market is a fragmented market. There is a wide range of medical institutions providing medical hair care services in China, including both public medical institutions and private medical institutions.

As shown in the table below, in terms of revenue generated from medical hair care services and number of in-network clinics providing medical hair care services in 2020, our Group ranked first among all medical institutions with a market share of approximately 4.3%.

**Top Market Players in Medical Hair Care Market in China by Revenue Generated From Medical Hair Care Services in 2020**

| Rank | Medical Institution | Revenue Generated from Medical Hair Care Services | Market Share |
|---|---|---|---|
| | | *(RMB millions)* | |
| 1 | Our Group | 213 | 4.3% |
| 2 | Group B | 180 | 3.6% |
| 3 | Group A | 150 | 3.0% |
| 4 | Group C | 85 | 1.7% |

**Top Market Players in Medical Hair care Market in China by Number of In-Network Clinics in 2020**

| Rank | Medical Institution | Number of In-network Clinics |
|---|---|---|
| 1 | Our Group | 48 |
| 2 | Group C | 32 |
| 3 | Group B | 30 |
| 4 | Group A | 29 |

*Source: Expert interview, Frost & Sullivan*

## THE FROST & SULLIVAN REPORT

In connection with the [**REDACTED**], we commissioned Frost & Sullivan, an Independent Third Party, to prepare a report on China's hair transplant service and medical hair care service markets. We have agreed to pay a total of RMB600,000 in fees to prepare the Frost & Sullivan Report. Frost & Sullivan is a market research and consulting company that provides market research on various industries, including healthcare. In preparing the report, Frost & Sullivan collected and reviewed publicly available data such as government-derived information, annual reports and industry association statistics, and market data collected by conducting interviews with key industry experts and leading industry participants. Frost & Sullivan has exercised due care in collecting and reviewing the information so collected.

Except as otherwise noted, all data and forecasts in this section come from the Frost & Sullivan Report. Our Directors confirm that, to the best of their knowledge, after taking reasonable care, there has been no adverse change in market information since the date of the Frost & Sullivan Report, which may qualify, contradict or impact the information disclosed in this section.

## REGULATIONS ON THE REFORM OF HEALTHCARE INSTITUTIONS

### Opinions on Deepening the Reform of the Medical and Healthcare System

The Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening the Reform of the Medical and Healthcare System (中共中央、國務院關於深化醫藥衛生體制改革的意見) promulgated on March 17, 2009 encourage social capital to invest in the healthcare institutions (including investments by the foreign investors), and promote the development of private healthcare institutions and the reform of public healthcare institutions (including those established by state-owned enterprises) through social capital investment.

### Notice on Further Encouraging and Guiding the Establishment of Medical Institutions by Social Capital

The Notice of the General Office of the State Council on Forwarding the Opinions of the National Development and Reform Commission, the Ministry of Health and Other Ministries on Further Encouraging and Guiding the Establishment of Medical Institutions by Social Capital (國務院辦公廳轉發發展改革委衛生部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), which was promulgated by the General Office of the State Council on November 26, 2010, stipulates that the PRC government encourages and supports investments by private investors in healthcare institutions of various types. Private investors are permitted to apply to establish for-profit or not-for-profit healthcare institutions. Private healthcare institutions are encouraged to engage or authorise domestic or overseas healthcare institutions with professional experience to participate in the management of hospitals to improve their efficiencies.

### 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), which was promulgated by the State Council on September 28, 2013, encourage the private sector to invest in the healthcare service industry by various means including new establishment and participation in restructuring and propose the idea of the relaxation of the requirements for Sino-foreign equity joint or cooperative joint healthcare institutions and gradually expand eligibility in the pilot program for wholly foreign-invested healthcare institutions.

### Several Opinions on Accelerating the Development of Medical Institutions with Social Capital

The Several Opinions on Accelerating the Development of Medical Institutions with Social Capital (關於加快發展社會辦醫的若干意見), which was promulgated on December 30, 2013 by the National Health and Family Planning Commission (the "**NHFPC**") and the State Administration of Traditional Chinese Medicine (the "**SATCM**"), stipulate the policies that support the development of private-invested healthcare institutions, including but not limited to the (i) gradual relaxation of investment in healthcare institutions by foreign capital; (ii) relaxation of requirements for service sectors, allowing social capital's investment in the areas which are not explicitly prohibited; and (iii) acceleration of the approval procedures regarding the establishment and operation of private hospitals.

**Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020)**

The Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020) (關於印發全國醫療衛生服務體系規劃綱要(2015-2020年)的通知), which was promulgated by the General Office of the State Council on March 6, 2015, stipulates that private medical institutions are significant and integral parts of the medical and healthcare service system as well as an effective approach to fulfilling people's multi-level and diversified medical and healthcare service needs. Private medical institutions may provide high-end services to fulfil extra needs which are beyond basic needs. The pilot scheme of establishment of medical institutions solely invested by qualified overseas capitals shall be expanded step by step. The restrictions on service scope shall also be reduced and the social capitals shall be allowed to invest in areas not explicitly prohibited by the laws and regulations.

**Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Social Capital**

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Social Capital (關於促進社會辦醫加快發展若干政策措施的通知), which was promulgated by the General Office of the State Council on June 11, 2015 and came into effect on the same day, stipulate (i) the elimination and cancellation of unreasonable preceding items for examination and approval and the reduction in the time required for making such examination and approval; (ii) the reasonable control of the number and scale of the public medical institutions and the exploration of the space for development of the medical institutions invested by social capital; and (iii) the support for the listing and financing of such eligible and qualified for-profit medical institutions invested by social capital.

**Notice on Printing Guiding Principles for the Allocation Planning of Medical Institutions (2016-2020)**

The Notice on Printing Guiding Principles for the Allocation Planning of Medical Institutions (2016-2020) (國家衛生計生委關於印發醫療機構設置規劃指導原則(2016-2020年)的通知), which was promulgated by the NHFPC on July 21, 2016, encourages the establishment of medical institutions by social capital and stipulates (i) the acceleration of the scale and high-level development of medical institutions with social capital, and the involvement of medical institutions with social capital in relevant planning to reserve space for the allocation of resources such as beds and large medical equipment according to a certain proportion, and (ii) the cancellation of limitations on the amount and location of medical institutions with social capital in accordance with total amount and structure of planning.

## REGULATIONS ON THE ADMINISTRATION AND CLASSIFICATION OF HEALTHCARE INSTITUTIONS

### Administrative Measures on Medical Institutions and its Implementation Measures

The Administrative Measures on Medical Institutions (醫療機構管理條例), which was promulgated on February 26, 1994 by the State Council and came into effect on 1 September 1994 and amended on February 6, 2016, and the Implementation Measures of the Administrative Measures on Medical Institutions (醫療機構管理條例實施細則), promulgated by the Ministry of Health of the PRC ("**MOH**") on August 29, 1994 and came into effect on September 1, 1994 and last amended on February 21, 2017 by NHFPC, stipulate that any entity or individual that intends to establish a healthcare institution must comply with the relevant application and approval procedures and register with the relevant healthcare administrative authorities to obtain a Medical Institution Practicing License (醫療機構執業許可證).

If the medical institution has no bed or less than 100 beds, the entity or individual shall apply to the health administrative department under the people's government at the county level in the place where the medical institution is about to be located; and if the medical institution has 100 beds or more or is a specialized hospital, the entity or individual shall apply according to the provisions of the health administrative department under the government at the provincial level.

Pursuant to the Basic Standards for Medical Institutions (醫療機構基本標準) promulgated by the Ministry of Health of the PRC (now known as National Health Commission of the PRC) on September 2, 1994 and amended on June 12, 2017, hospitals in China are generally ranked into three classes, i.e., Class I, II and III, with Class III being the highest class. For different classes, there are requirements of different degrees for the allocation of, among others, facilities, equipment and human resources. For example, Class I hospital needs meet certain standards in respect of a minimum of 20 registered beds, a minimum of three licensed physicians and five nurses, and the set-up of certain required equipment, clinical and medical technology departments, internal system and operating procedures.

### Administrative Measures for the Examination of Medical Institutions (for Trial Implementation)

The Administrative Measures for the Examination of Medical Institutions (For Trial Implementation) (醫療機構校驗管理辦法(試行)) (the "**Administrative Measures for Examination**"), which was promulgated by the MOH and came into effect on June 15, 2009, stipulate that a healthcare institution's Medical Institution Practicing License (醫療機構執業許可證) is subject to periodic examinations and verifications by the registration authorities, and will be cancelled if such healthcare institution fails to pass the examination.

### Opinions on Implementing Classification Administration of Urban Medical Institutions

The Opinions on Implementing Classification Administration of Urban Medical Institutions (關於城鎮醫療機構分類管理的實施意見), jointly promulgated by the MOH, SATCM, Ministry of Finance (the "**MOF**") and National Development and Reform Commission (the "**NDRC**") on July 18, 2000 and came into effect on September 1, 2000, provide that not-for-profit and for-profit healthcare institutions shall be classified based on their business objectives, service purposes and implementation of divergent financial, taxation, pricing and accounting policies.

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

Pursuant to the Law on the Promotion of Basic Medical Care, Hygiene and Health (基本醫療衛生與健康促進法), which was released by the SCNPC on December 28, 2019 and will come into effect on June 1, 2020, lawful registration and classified management for not-for-profit and for-profit medical institutions shall be implemented. Government-run medical institution shall not set up non-independent legal person medical institution with other organizations, or cooperate with social capital to establish for-profit medical institutions. It also provides that 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 assessment of medical staff, etc.

### Administrative Measures for the Clinical Application of Medical Technologies

According to the Administrative Measures for the Clinical Application of Medical Technologies (醫療技術臨床應用管理辦法), which was promulgated by the National Health Commission on August 13, 2018 and took effect on November 1, 2018, a negative management system is established for the clinical application of medical technologies. More specifically, those listed on the negative list to be promulgated are deemed to be prohibited medical technologies and the clinical application of which is prohibited; certain medical technologies that are beyond the negative list but possess certain prescribed characteristics are subject to strict record-filing management by the relevant health administrative department which require self-assessment of the medical technologies in question and submission of certain prescribed materials; and those medical technologies that are not categorized as prohibited or restricted medical technologies may be subject to clinical application by medical institutions according to their own functions, objectives, technical capabilities and so on and shall be strictly managed by the medical institutions themselves.

## 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 was promulgated by the NHFPC on January 22, 2002, came into effect on May 1, 2002 and amended on February 13, 2009 and January 19, 2016, stipulates 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. Aesthetic medical attending in-charge physicians and personnel providing aesthetic medical nursing services shall meet relevant requirements. Provincial level health authorities may make additional requirements upon qualification review of aesthetic medical attending in-charge physician.

**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 December 11, 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. As for aesthetic surgery items, the aesthetic surgery items are divided into four grades in accordance with the difficulty and complexity of the surgery, the possibility of medical malpractice and the level of surgery risk. 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 April 16, 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. For each aesthetic medical clinic, it shall have at least two beds, and for each department in the clinic, it shall have at least one attending physician and at least one nurse.

**Circular on Further Strengthening Comprehensive Regulatory Enforcement in the Medical Beauty Industry**

On April 3, 2020, the SAMR, the National Health Commission of the PRC (the "**NHC**"), National Medical Products Administration of the PRC (the "**NMPA**"), Office of the Central Cyberspace Affairs Commission (the "**CCAC**"), among others, jointly promulgated the Circular on Further Strengthening Comprehensive Regulatory Enforcement in the Medical Beauty Industry (關於進一步加強醫療美容綜合監管執法工作的通知), which stipulate that medical beauty services shall be implemented by the attending physician (主診醫師) or the practicing physician under the guidance of the attending physician in accordance with the registered medical beauty service items in the medical institutions that set up medical beauty related subjects. No organization or individual shall carry out medical beauty services without meeting the legal conditions. Medical beauty institutions shall purchase drugs and medical devices in enterprises with production and operation qualifications. Medical beauty advertisements belong to medical advertisements, and non-medical institutions shall not publish medical advertisements.

### Special Rectification Work Plan for Cracking Down on Illegal Medical Beauty Services

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

## REGULATIONS ON THE SUPERVISION OVER PHARMACEUTICALS AND MEDICAL EQUIPMENT IN HEALTHCARE INSTITUTIONS

### Measures for the Supervision and Administration of Pharmaceuticals in Medical Institutions (for Trial Implementation)

The Measures for the Supervision and Administration of Pharmaceuticals in Medical Institutions (for Trial Implementation) (醫療機構藥品監督管理辦法(試行)), promulgated by China Food and Drug Administration (the "**CFDA**") and came into effect on October 11, 2011, stipulate that medical institutions must purchase pharmaceuticals from enterprises qualified for the production or distribution of pharmaceuticals and comply with certain standards in respect of the storage, dispensation and use of such pharmaceuticals. Pharmaceutical preparation dispensed by a healthcare institution must only be used by and for that healthcare institution. Healthcare institutions are prohibited from selling prescription pharmaceuticals to the public by such means as post, online transaction and open-shelf selection.

### Prescription Management

According to the Administrative Measures for Prescriptions (處方管理辦法), which was promulgated by the MOH on February 14, 2007 and came into effect on May 1, 2007, a registered medical practitioner is entitled to issue prescriptions at his registered practice location. 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 June 18, 1999 and came into effect on January 1, 2000, set forth different systems for the control of prescription and non-prescription drugs. Medical institutions can decide or recommend to use non-prescription drugs on the basis of medical necessity.

## LAWS AND REGULATIONS ON MEDICAL PERSONNEL OF HEALTHCARE INSTITUTIONS

### 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 National People's Congress (the "**SCNPC**") on June 26, 1998 and came into effect on May 1, 1999 and last amended on August 27, 2009, provides that physicians in the PRC must obtain qualification licenses for their medical profession. Qualified physicians and qualified assistant physicians must register with the relevant public health administrative authorities at or above the county level. After registration, physicians may be engaged in relevant medical treatment, disease-prevention or healthcare business in their registered institution within the registered practicing categories and practicing scope. On February 28, 2017, the NHFPC promulgated the Administrative Measures for the Registration of Medical Practitioners (醫師執業註冊管理辦法) (the "**Medical Practitioners Registration Measures**"), which became effective on April 1, 2017, further stipulates that medical practitioners shall obtain the Practicing Certificate to practise upon registration, and provide in detail the requirements and procedures for the registration as well as the modifications to be made to such registration upon occurrence of certain prescribed circumstances.

### Several Opinions on Accelerating the Development of Medical Institutions with Social Capital and Several Opinions on Promoting and Standardising Multi-Institution Practice of Medical Practitioners

Several Opinions on Accelerating the Development of Medical Institutions with Social Capital (關於加快發展社會辦醫的若干意見), jointly promulgated by the NHFPC and the SATCM on December 30, 2013, specifically stipulates that multi-institution practices of medical practitioners shall be permitted and relevant authorities should permit the orderly movements of the medical personnel among medical institutions of various sponsorships. The Notice on Printing and Distributing Several Opinions on Promoting and Standardising Multi-Institution Practice of Medical Practitioners (關於印發推進和規範醫師多點執業的若干意見的通知), jointly issued by the NHFPC, the NDRC, the Ministry of Human Resources and Social Security, the SATCM and the China Insurance Regulatory Commission on November 5, 2014, stipulates that the clinical, dental and traditional Chinese medicine practitioners are allowed to practise in multiple places. According to the Medical Practitioners Registration Measures, for any other institution in which the medical practitioner intends to practise, such medical practitioner shall apply to the health administrative authority for up the practice of such institution for separate recordation in which the name of such institution shall be indicated.

### Regulations on Nurses

The Regulations on Nurses (護士條例), promulgated by the State Council on January 31, 2008 and came into effect on May 12, 2008 and amended on March 27, 2020, provide that a nurse must obtain a Nurse's Practicing Certificate (護士執業證書) which is valid for five years in order to practise. The number of practicing nurses on duty at a healthcare institution shall not be less than the standard number as prescribed by the public health administrative authority of the State Council.

### Administrative Measures for the Registration of Practising Nurses

Pursuant to the Administrative Measures for the Registration of Practising Nurses (護士執業註冊管理辦法) promulgated by the NHFPC on May 6, 2008 and latest amended on January 8, 2021, nurses must register and obtain the Nurse Practising Certificate (護士執業證書) before they practise nursing at the registered practising place. Those who have not obtained the Nurse Practising Certificate are not allowed to engage in nursing activities regulated by medical treatment standards.

## LAWS AND REGULATIONS REGARDING ANTI-CORRUPTION, ANTI-UNFAIR COMPETITION AND ANTI-COMMERCIAL BRIBERY

The governmental departments of the PRC have formulated the relevant laws and regulations for standardizing 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 jointly by the NHFPC, the CFDA and the State Administration of Traditional Chinese Medicine on June 26, 2012, the practitioners in healthcare institutions shall perform their duties honestly, be self-disciplined, and shall abide by medical ethics.

The Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) passed by the SCNPC 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 May 8, 2019, nine national authorities, including the National Health Commission of the PRC, State Administration for Market Regulation, MOFCOM, and the National Healthcare Security Administration, jointly issued the *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.

## LAWS AND REGULATIONS ON MEDICAL MALPRACTICE

### PRC Civil Code

Pursuant to the PRC Civil Code (中華人民共和國民法典) which was promulgated by the National People's Congress (the "**NPC**") on May 28, 2020 and became effective on January 1, 2021, if a patient suffers damage in the course of diagnosis and treatment and the medical institution or its medical personnel are at fault, the medical institution shall bear the liability for compensation.

### Regulations on Handling Medical Malpractice

The Regulations on Handling Medical Malpractice (醫療事故處理條例), which was promulgated by the State Council on April 4, 2002 and came into effect on September 1, 2002, provides a legal framework and detailed provisions regarding the prevention, technical identification, disposition, supervision, compensation and penalties of medical malpractice. For the purpose of the regulation, medical malpractice refers to an accident involving personal injury to patients caused by medical institutions or medical personnel due to malpractice as a result of violation of the laws, administrative regulations or departmental rules on medical and health administration, or of standards or procedures of medical treatment.

## REGULATIONS ON PROTECTION OF CONSUMERS

On March 15, 2014, the SCNPC promulgated the Law of the People's Republic of China on the Protection of Rights and Interests of Consumers (中華人民共和國消費者權益保護法), which specifies the consumer rights, obligations of business operators, protection of legitimate consumer rights and interests by the state, legal liability of business operators, etc. Particularly, business operators providing goods or services by way of advance payment shall provide goods or services pursuant to the agreement. Where the goods or services are not provided pursuant to the agreement, the business operator shall perform the agreement as required by the consumer or refund the advance payment and bear the interest on advance payment and reasonable expenses incurred by the consumer.

The Guidance for the Conduct of Consumer Prepaid Service Transaction Contracts in Beijing (Trial Implementation) (北京市消費類預付費服務交易合同行為指引(試行)), which was promulgated by the Beijing Administration for Industry and Commerce on September 1, 2011, provides more specific provisions. Pursuant to this guidance, before collecting the prepaid fee, the business operator shall, according to the characteristics of the transaction, agree with the consumer in writing or inform the consumer of the following contents: service location, service time, service mode, use authority, price standard, preferential conditions, service standard, use of commodity brand, validity period or times, replacement of loss, refund transfer, liability for breach of contract, etc. Business operators shall not make ambiguous lifelong service commitments. The term of validity of the contract agreed between the business operator and the consumer shall be commensurate with the amount of prepaid expenses and the service life of the business site. A consumer who has not used the prepaid fee to receive services within 7 days after the delivery of the prepaid fee has the right to terminate the contract unconditionally, the business operator shall return all the prepaid expenses at one time. If a consumer accepts the free experience or trial service provided by the operator within 7 days after paying the prepaid fee, it will not affect the consumer's exercise of the unconditional right to terminate the contract.

## REGULATIONS ON MEDICAL ADVERTISING IN THE PRC

### Advertisement Law of the PRC

The Advertisement Law of the PRC (中華人民共和國廣告法) (the "**Advertisement Law**"), which was promulgated by the SCNPC on October 27, 1994 and latest amended on April 29, 2021, provides that advertisements shall not contain false statements nor be deceitful or misleading to consumers. Advertisements legally required to receive censorship, including those that are relating to medical, pharmaceuticals and medical devices, shall be examined by relevant authorities in accordance with relevant rules before being published, and the advertisements shall not be distributed without going

through examination. Medical advertisements shall not contain: (i) any assertion or guarantee for efficacy or safety, (ii) any statement on cure rate or effective rate, (iii) comparison with other medical institutions, (iv) use of advertisement endorsers to make endorsements or testimonials; or (v) other items as prohibited by laws and administrative regulations.

**Interim Measures for the Administration of Internet Advertisement**

The Interim Measures for the Administration of Internet Advertisement (互聯網廣告管理暫行辦法), which was promulgated by the State Administration of Industry and Commerce (the "**SAIC**") on July 4, 2016 and came into effect on September 1, 2016, provides that internet advertisements shall be identifiable and clearly identified as an "advertisement" so that consumers will identify it is as such. Paid search advertisements shall be clearly distinguished from natural search results. It is prohibited to publish advertisements for prescription drugs and tobaccos via the Internet. No advertisement of any medical treatment, medicines, foods for special medical purpose, medical apparatuses, pesticides, veterinary medicines, dietary supplement or other special commodities or services which are subject to review by advertisement examination authorities as stipulated by laws and regulations shall be released unless it has passed such examination.

**Medical Advertisement**

The Administrative Measures on Medical Advertisement (醫療廣告管理辦法), jointly promulgated by the SAIC and the MOH on September 27, 1993, took effect on December 1, 1993, amended on November 10, 2006 and came into effect on January 1, 2007, requires that medical advertisements shall be reviewed by relevant health authorities and obtain a Medical Advertisement Examination Certificate (醫療廣告審查證明) before they may be released by a healthcare institution. Medical Advertisement Examination Certificate has an effective term of one year. If the certificate holder needs to continue to publish the medical advertisement after the expiration of the period, it shall apply for examination again. The following circumstances are prohibited in a medical advertisement:

1. Involving medical technology, diagnosis and treatment methods, disease names or drugs.

2. Guaranteeing or implying cure rate.

3. Publicize cure rate, effective rate or other diagnosis and treatment effects.

4. Containing obscene, superstitious or absurd contents.

5. Belittling others.

6. Using the name or image of patients, health technicians, medical education and scientific research institutions and personnel, as well as other social associations and organizations as proof.

7. Using the name or image of the People's Liberation Army or the armed police force.

8. Other Circumstances prohibited by laws and administrative regulation.

Pursuant to the Special Rectification Work Plan for Cracking Down on Illegal Medical Beauty Services, medical beauty advertisements belong to medical advertisements, and non-medical institutions shall not publish medical advertisements. Medical beauty institutions shall obtain the Medical Advertisement Examination Certificate before publishing medical advertisements, in strict accordance with the Advertisement Law and the Administrative Measures on Medical Advertisement. Without examination and approval in accordance with the laws and regulations, it is strictly forbidden to publish medical advertisements or false information in the form of news, medical information service topics (columns), health science popularization, etc.

The Enforcement Guidance for the Medical Cosmetology Advertising (醫療美容廣告執法指南) (the "**Enforcement Guidance**"), which was promulgated by the SAMR on November 1, 2021 and came into effect on the same day, stipulates that the market regulatory departments shall rectify the chaos of all kinds of medical beauty advertisements in accordance with the laws and regulations, strive to solve the problems of great harmfulness and concentrated public response, and crack down on the following situations:

1. go against the good social fashion and create "appearance anxiety". Improperly associate poor appearance with negative evaluation factors such as "imbecility", "laziness" and "poverty", or improperly associate good appearance with positive evaluation factors such as "high quality", "diligence" and "success".

2. to advertise drugs and medical devices that have not been approved or registered by the drug administrative department in violation of the laws and regulations related to drugs, medical devices and advertisements.

3. to publicize contents such as diagnosis and treatment subjects and service items that have not been approved or registered by the administrative department of health.

4. to publicize the effect of diagnosis or make a guaranteed commitment to the safety and efficacy of diagnosis.

5. to use the name or image of industries association or other associations or organizations to prove it; to use the name or image of the patient to compare the effects before and after diagnosis or to prove it.

6. to make use of advertising spokesmen to recommend and certify medical beauty. The so-called "recommendation officer" and "experience officer" that appear in the medical beauty advertisement, who make the recommendation certificate for the medical beauty in their own name or image, should be recognized as advertising spokesmen.

7. to publish medical beauty advertisements in disguised form in the form of introducing health, health-preserving knowledge, exclusive interviews with people, news reports, etc.

8. to publicize the function of treating diseases to food, health food, disinfection products and cosmetics or claiming to have health care functions for foods other than health food.

9. other acts that seriously infringe upon the rights and interests of the masses in violation of advertising laws and regulations.

## REGULATIONS ON ENVIRONMENTAL PROTECTION AND FIRE PREVENTION RELATED TO HEALTHCARE INSTITUTIONS

### Administrative Measures for Pollutant Discharge Licensing

Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (排污許可管理辦法(試行)), which was promulgated by the Ministry of Environmental Protection on January 10, 2018, and amended on August 22, 2019, stipulate that the enterprises, public institutions and other production operators (the "**pollutant discharge entities**") included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources shall apply for and obtain a pollutant discharge permit as per the prescribed time limit; and those are not included in the catalog are not required to do so for the time of being.

Pursuant to the Classified Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution (2019 Edition) (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 Ecology and Environment on December 20, 2019 and became effective on the same day, a pollutant discharge entity subject to registration management is not required to apply for a pollutant discharge permit. It shall fill in the pollutant discharge registration form on the management information platform of state pollutant discharge permits, and register with its basic information, pollutant discharge route, pollutant discharge standards implemented, pollution prevention, control measures adopted and other information.

### Regulations on the Management of Medical Waste and its Implementation Measures

The Regulations on the Management of Medical Waste (醫療廢物管理條例), promulgated by the State Council on June 16, 2003 and came into effect on the same day and further amended and came into effect on January 8, 2011, and the Implementation Measures for the Management of Medical Waste of Medical and Health Institutions (醫療衛生機構醫療廢物管理辦法), promulgated by the MOH on October 15, 2003 and came into effect on the same day, stipulate that healthcare institutions must categorise the medical waste in accordance with the Classified Catalogue of Medical Waste (醫療廢物分類目錄) for management purpose and timely deliver medical waste to a medical waste disposal entity approved by the environmental protection administrative department at or above the county level for centralized disposal. Our emission of medical waste and pollutants are in compliance with these rules and regulations in all material respects. For details, see "Business — Environmental Sustainability and Social Responsibility — Environmental Protection" in this document.

### Regulations on Urban Drainage and Sewage Treatment

Enterprises that engage in the activities of industry, construction, catering, and medical treatment, etc. that discharges sewage into urban drainage facilities shall apply to the relevant competent urban drainage department for collecting the permit for discharging sewage into drainage pipelines under relevant laws and regulations, including the Regulations on Urban Drainage and Sewage Disposal (城鎮排水與污水處理條例), which was promulgated on October 2, 2013 and came into force on January 1, 2014, and the Measures for the Administration of Permits for the Discharge of Urban Sewage into the Drainage Network (城鎮污水排入排水管網許可管理辦法), which was promulgated on January 22, 2015 and came into force on March 1, 2015. Drainage entities covered by urban drainage facilities shall discharge sewage into urban drainage facilities in accordance with the relevant provisions of the state. Where a drainage entity needs to discharge sewage into urban drainage facilities, it shall apply for a

drainage license in accordance with the provisions of these Measures. The drainage entity that has not obtained the drainage license shall not discharge sewage into urban drainage facilities.

**Law on Prevention and Control of Water Pollution of the PRC**

Pursuant to the Law on Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法) promulgated by the SCNPC on May 11, 1984 and became effective on November 1, 1984, amended on May 15, 1996 and came into effective on the same day, amended on February 28, 2008 and became effective on June 1, 2008, last amended on June 27, 2017 and became effective on January 1, 2018, the production and operation units must discharge water pollutants in accordance with national and local standards. If the amount of discharged water pollutants exceeds the national or local standards, the production and operation units will be imposed a fine equivalent to an amount between RMB100,000 and RMB1,000,000. In addition, the environmental protection authority is empowered to order the relevant production and operation units to restrict their production, or stop production for rectification, and in serious circumstances, the case will be reported to the competent government with approval authority to impose an order to suspend or shut-down its operation.

**Environmental Impact Appraisal**

According to the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例), which was promulgated by the State Council on November 29, 1998, amended on July 16, 2017 and became effective on October 1, 2017, depending on the impact of the construction project on the environment, an construction employer shall submit an environmental impact report or an environmental impact statement, or file a registration form. As to a construction project, for which an environmental impact report or the environmental impact statement is required, the construction employer shall, before the commencement of construction, submit the environmental impact report or the environmental impact statement to the relevant authority at the environmental protection administrative department for approval. If the environmental impact assessment documents of the construction project have not been examined or approved upon examination by the approval authority in accordance with the law, the construction employer shall not commence the construction.

According to the Environmental Impact Appraisal Law of PRC (中華人民共和國環境影響評價法), which was promulgated by the SCNPC on October 28, 2002, amended on July 2, 2016 and December 29, 2018, for any construction projects that have an impact on the environment, an entity is required to produce either a report, or a statement, or a registration form of such environmental impacts depending on the seriousness of effect that may be exerted on the environment.

**Fire Prevention Design and Acceptance**

The Fire Prevention Law of the PRC (中華人民共和國消防法) (the "**Fire Prevention Law**")was adopted on April 29, 1998 and latest amended on April 29, 2021. According to the Fire Prevention Law, for special construction projects stipulated by the housing and urban-rural development authority of the State Council, the developer shall submit the fire safety design documents to the housing and urban-rural development authority for examination, while for construction projects other than those stipulated as special development projects, the developer shall, at the time of applying for the construction permit or approval for work commencement report, provide the fire safety design drawings and technical materials which satisfy the construction needs. According to the Regulations on the Supervision and Administration of Fire Prevention in Construction projects (建設工程消防監督管理規定), which was

promulgated by the Ministry of Public Security of the PRC on July 17, 2012 and terminated on June 1, 2020, an examination system for fire prevention design and acceptance only applies to the densely populated places and the special construction projects, and for other projects, a record-filing of fire prevention design and acceptance and spot check system would be applied. According to Interim Regulations on Administration of Examination and Acceptance of Fire Control Design of Construction Projects (建設工程消防設計審查驗收管理暫行規定), which was promulgated by the Ministry of Housing and Urban-Rural Development on April 1, 2020 and came into effect on June 1, 2020, an examination system for fire prevention design and acceptance only applies to special construction projects, and for other projects, a record-filing and spot check system would be applied. A construction project with one of the following situations shall be deemed as a special construction project: an outpatient building of a hospital with a total floor area of more than 2,500 square meters, or the ward building of a hospital or sanatorium with a total floor area of more than 1,000 square meters, etc.

## LAWS AND REGULATIONS RELATED TO INTELLECTUAL PROPERTY RIGHTS

### Trademark

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法) which became effective on March 1, 1983, and was last amended on April 23, 2019 and took effect on November 1, 2019, and the Regulation for the Implementation of Trademark Law of the PRC (中華人民共和國商標法實施條例) which became effective on September 15, 2002 and was amended on April 29, 2014 and took effect on May 1, 2014, the Trademark Office of the administrative department for industry and commerce under the State Council is responsible for the registration and administration of trademarks in the PRC. A trademark registrant enjoys an exclusive right to the trademark. A trademark registrant may, by entering into a trademark licensing contract, license another party to use its registered trademark. Where another party is licensed to use a registered trademark, the licenser shall report the license to the Trademark Office for recordation, and the Trademark Office shall publish the same. An unrecorded license may not be used as a defence against a third party in good faith.

### Patents

According to the Patent Law of the PRC (中華人民共和國專利法), promulgated by the SCNPC and came into effect on June 1, 2021 and the Implementing Rules of the Patent Law of the PRC (中華人民共和國專利法實施細則), promulgated by the China Patent Bureau Council on January 19, 1985, and last amended on January 9, 2010 by State Council and came into effect on February 1, 2010, the term "invention-creations" refers to inventions, utility models and designs. The duration of a patent right for inventions shall be 20 years, the duration of a patent right for utility models shall be 10 years and the duration of a patent right for design shall be 15 years, all commencing from the filing date. In the event that a dispute arises due to a patent being exploited without the prior authorization of the patentee, that is to say an infringement upon the patent right of the patentee.

### Domain Names

In accordance with the Measures for the Administration of Internet Domain Names (互聯網域名管理辦法) which was issued by the Ministry of Industry and Information Technology of the PRC on August 24, 2017 and came into effect on November 1, 2017, the Ministry of Industry and Information Technology of the PRC is responsible for supervision and administration of domain name services in the PRC. Communication administrative bureaus at provincial levels shall conduct supervision and administration

of the domain name services within their respective administrative jurisdictions. Domain name registration services shall, in principle, be subject to the principle of "first apply, first register". A domain name registrar shall, in the process of providing domain name registration services, ask the applicant for which the registration is made to provide authentic, accurate and complete identity information on the holder of the domain name and other domain name registration related information.

## LAWS AND REGULATIONS RELATED TO FOREIGN INVESTMENT IN THE PRC

### Company Law of the PRC

The Company Law of the PRC (中華人民共和國公司法) (the "**Company Law**"), which was promulgated by the SCNPC on December 29, 1993 and came into effect on July 1, 1994, last amended on October 26, 2018, provides that companies established in the PRC may take form of company of limited liability or company limited by shares. Each company has the status of a legal person and owns its assets itself. Assets of a company may be used in full for the company's liability. The Company Law applies to foreign-invested companies unless relevant laws provide otherwise.

### Laws and Regulations in Relation to Sino-Foreign Joint Ventures

The Law on Sino-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法) (the "**EJV Law**") was promulgated and implemented on July 8, 1979. It was subsequently amended on April 4, 1990, March 15, 2001 and September 3, 2016. The Implementation Rules for the Law on Sino-Foreign Equity Joint Ventures of the PRC (中華人民共和國中外合資經營企業法實施條例) (the "**EJV Rules**") were promulgated by the State Council on September 20, 1983, and last amended on March 2, 2019. The EJV Law and its implementation rules state the establishment and approval procedures, requirements on registered capital, restrictions on foreign exchange, accounting practices, taxation, labour requirements and other issues applicable to Sino-foreign equity joint ventures. On January 1, 2020, the EJV Law was terminated and replaced by the Foreign Investment Law of the PRC (中華人民共和國外商投資法), and the EJV Rules was terminated and replaced by Implementing Regulations 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 Provisional Measures for the Filing Administration of Establishment and Changes of Foreign-Invested Enterprises

The Provisional Measures for the Filing Administration of Establishment and Changes of Foreign-Invested Enterprises (2018 Revision) (外商投資企業設立及變更備案管理暫行辦法 (2018年修正)), which was promulgated by the MOFCOM on June 29, 2018 and implemented on June 30, 2018, set out the prescribed procedures for the establishment and modifications of foreign-invested enterprises which are not subject to the special management measures on admission as stipulated by the PRC to be filed for records with the delegated commerce authorities and specify the procedures and requirements for such filing in detail. Foreign invested enterprises and their investors shall provide information for filing and completing the declaration form for filing application truthfully, accurately and completely according to such provisional measures without any false records, misleading statements or material omission.

On January 1, 2020, the Provisional Measures for the Filing Administration of Establishment and Changes of Foreign-Invested Enterprises (2018 Revision) was terminated and replaced by the Measures on Reporting of Foreign Investment Information (外商投資信息報告辦法).

### The Measures for the Reporting of Foreign Investment Information

The Measures for the Reporting of Foreign Investment Information (外商投資信息報告辦法), which was promulgated by the MOFCOM and the State Administration for Market Regulation ("**SAMR**") on December 30, 2019 and came into effect on January 1, 2020, stipulates that a foreign investor who establishes a foreign-invested enterprise within China shall submit an initial report through the enterprise registration system when undergoing formation registration of the foreign-funded enterprise, a foreign investor that acquires a domestic non-foreign-invested enterprise by equity merger shall submit an initial report through the enterprise registration system when undergoing modification registration of the acquired enterprise.

### Interim Provisions on Investment Made by Foreign-Invested Enterprises in China

The Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (關於外商投資企業境內投資的暫行規定), jointly promulgated by the Ministry of Foreign Trade and Economic Cooperation of the PRC and the SAIC on July 25, 2000 and amended on October 28, 2015, stipulates that a foreign-invested enterprise (the "**FIE**") are not permitted to invest in any sector prohibited to foreign investment. Where the FIE makes investment in a restricted sector, the FIE must file an application with the provincial commercial department of the place where the investee company is located. The relevant company registration authority will, in accordance with the relevant provisions of the Company Law and the Regulations on the Administration of Company Registration of the PRC (中華人民共和國公司登記管理條例), decide whether or not to approve the registration. If the registration is approved, a Business License will be issued with the designation "Invested by a Foreign-Invested Enterprise". The FIE is required to report the establishment of the investee company within 30 days of the date of its establishment to the original examination and approval authority for record-filing.

## DOMESTIC REGULATIONS ON ESTABLISHMENT OF FOREIGN INVESTED HOSPITALS

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

The Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (the "**Catalogue**"), which regulates conducting foreign investment in the PRC, was first issued in 1995 and amended from time to time. The Catalogue promulgated by the MOFCOM and the NDRC on June 28, 2017 and became effective on July 28, 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 special administrative 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 June 28, 2018, and came into effect on July 28, 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 June 30, 2019 and came into effect on July 30, 2019, have replaced the 2017 Catalogue and the 2018 Negative List and further reduced restrictions on the foreign investment. According to the 2019 Negative List, medical institutions are limited to equity joint ventures and cooperative joint ventures. The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Revision) (外商投資准入特別管理措施(負面清單)(2020 年版)) (the 2020 Negative List), which were issued on June 23, 2020 and came into effect on July 23, 2020, has replaced the 2017 Catalogue, the 2018 Negative List and the 2019 Negative List and further reduced restrictions on the foreign investment. According to the 2020 Negative List, medical institutions are limited to the form of joint ventures.

**Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions**

The Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), which was promulgated by MOH and the Ministry of Foreign Trade and Economic Cooperation on May 15, 2000 and came into effect on July 1, 2000, allow foreign investors to partner with Chinese entities to establish a medical institution in China 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%. Establishment of equity joint venture or cooperative medical institutions shall be subject to approval by relevant authorities.

**Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors**

The Provisions 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), jointly promulgated by the MOFCOM, State-owned Asset Supervision and Administration Commission of the State Council, STA, SAIC, CSRC and the SAFE on August 8, 2006, came into effect on September 8, 2006 and subsequently amended by the MOFCOM on June 22, 2009, require the domestic companies, enterprises or natural persons, when merging or acquiring domestic companies associated with them in the name of the companies in foreign countries legally established or controlled by them, shall report to the Ministry of Commerce for approval.

**REGULATIONS ON THE MANAGEMENT OF LEASE HOUSING**

**Administrative Measures on Leasing of Commodity Housing**

Pursuant to (i) the Law on Administration of Urban Real Estate of the PRC (中華人民共和國城市房地產管理法), promulgated by the SCNPC on July 5, 1994 and was amended on August 27, 2009 and August 26, 2019 and took effect on January 1, 2020, and (ii) the Administrative Measures on Leasing of Commodity Housing (商品房屋租賃管理辦法), promulgated by the Ministry of Housing and Urban-Rural Development on December 1, 2010 and came into effect on February 1, 2011, when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and the lessee shall complete property leasing registration and filing formalities within 30 days from the execution of the property lease contract with the real estate administration department where the leased property is located. If the lessor and lessee fail to go through the registration and filing procedures, both lessor and lessee may be subject to fines.

## LAWS AND REGULATIONS RELATED TO LABOUR PROTECTION

According to the (i) Labour Law of the PRC (中華人民共和國勞動法) effected on January 1, 1995 and last amended on December 29, 2018, (ii) the Labour Contract Law of the PRC (中華人民共和國勞動合同法) effected on January 1, 2008 and amended on December 28, 2012 and took effect on July 1, 2013, and (iii) the Regulations on the Implementation of the Labour Contract Law of the PRC (中華人民共和國勞動合同法實施條例) issued and became effective on September 18, 2008, an employer must enter into a written labour contract with any employees and the wage or salary must not be lower than the local minimum wage or salary. In addition, an employer must establish a system related to occupation health and safety, provide job training for employees to avoid occupational hazards and protect the rights of employees. When an employer recruits any employees, such employer must inform the employees of the work content, work conditions, work place, occupational hazards, safety conditions and labour compensations.

According to (i) the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was implemented on July 1, 2011 and amended on December 29, 2018, (ii) the Provisional Regulations on Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), issued and effected on January 22, 1999 and revised on March 24, 2019, (iii) the Provisional Measures on Maternity Insurance of Enterprise Employees (企業職工生育保險試行辦法), issued on December 14, 1994 and effected January 1, 1995, (iv) the Regulations on Unemployment Insurance (失業保險條例), issued and effective on January 22, 1999, and (v) the Regulations on Work Related Injuries Insurance (工傷保險條例), effected on January 1, 2004 and amended on December 20, 2010 and took effect on January 1, 2011, an employer must make contributions to a number of social security funds for its employees, including the basic pension insurance, basic medical insurance, maternity insurance, unemployment insurance and work-related injury insurance. According to the Regulations on Management of Housing Provident Fund (住房公積金管理條例), effected on April 3, 1999 and last amended on March 24, 2019, an employer must open a housing fund account with the department responsible for the management of housing fund for its employees and make contributions to such housing fund.

## LAWS AND REGULATIONS RELATED TO TAXATION

### Enterprise Income Tax

According to (i) the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法) (the "**PRC EIT Law**"), which was promulgated by the National People's Congress on March 16, 2007 and came into effect on January 1, 2008, and further amended on February 24, 2017 and December 29, 2018, and (ii) the Implementation Regulations on the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法實施條例) (the "**EIT Rules**"), which was promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008 and revised on April 23, 2019, the tax rate for both domestic-funded enterprises and foreign-invested enterprises is 25%. Under the PRC EIT Law and PRC EIT Rules, enterprises are classified as either "resident enterprises" or "non-resident enterprises". Enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and subject to the uniform 25% PRC EIT rate for their global income. According to the PRC EIT Rules, a "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. Dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free income.

The PRC EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. PRC EIT Rules provide that after January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-resident enterprise investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business, to the extent such dividends are derived from source within the PRC. Pursuant to the Notice on the Several Issues of the Implementation of Dividend Clauses in Tax Treaty (國家税務總局關於執行税收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on February 20, 2009, the income tax on the dividends may be reduced pursuant to a tax treaty between the PRC and the jurisdiction in which the non-resident enterprise investors is located if the non-resident enterprise investor is determined by the competent PRC tax authority to have satisfied relevant conditions and requirements.

The Announcement on Several Issues Concerning the Enterprise Income Tax on Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得税若干問題的公告) (the "**SAT Circular 7**") was issued by the SAT on February 3, 2015 and last amended on December 29, 2017, provides comprehensive guidelines heightening the PRC tax authorities' scrutiny on, indirect transfers by a non-resident enterprise of assets, including assets of organisations and premises in PRC, immovable property in the PRC, equity investments in PRC resident enterprises. On October 17, 2017, the SAT issued the Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (關於非居民企業所得税源泉扣繳有關問題的公告), which took effect on December 1, 2017 and amended on June 15, 2018, the balance after deducting the equity net value from the equity transfer income shall be the taxable income amount for equity transfer income.

Under the SAT Circular 7 and the Law of the People's Republic of China on the Administration of Tax Collection (中華人民共和國税收徵收管理法), which was promulgated by the SCNPC on September 4, 1992 and last amended on April 24, 2015, in the case of an indirect transfer, entities or individuals obligated to pay the transfer price to the transferor shall act as withholding agents. If they fail to make withholding or withhold the full amount of tax payable, the transferor of equity shall declare and pay tax to the relevant tax authorities within seven days from the occurrence of tax payment obligation.

**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税和防止偷漏税的安排) (the "**Tax Treaty**") entered into between Mainland China and HKSAR on August 21, 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns 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 once approvals have been obtained from the relevant tax authorities.

Pursuant to the Notice on the Several Issues of the Implementation of Dividend Clauses in Tax Treaty (國家税務總局關於執行税收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on February 20, 2009, the non-resident taxpayer or the withholding agent is required to obtain and 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. Pursuant to the Administrative Measures for Tax Treaty Treatment for Non-resident Taxpayers (非居民納税人享受税收

協定待遇管理辦法), which was promulgated by the SAT on August 27, 2015 and amended on June 15, 2018, and further replaced by the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (國家税務總局關於發佈《非居民納税人享受協定待遇管理辦法》的公告), which took effect on January 1, 2020, any nonresident taxpayer satisfying the conditions for enjoying the tax treaty treatment may be entitled to the tax treaty treatment on its own when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

The Announcement of the State Administration of Taxation on Issues Relating to "Beneficial Owner" in Tax Treaties (國家税務總局關於税收協定中"受益所有人"有關問題的公告) issued by the SAT on February 3, 2018 and came into effect on April 1, 2018, provides that the "beneficial owner" shall mean a person who has the ownership and control over the income and the rights and property from which the income is derived. When an individual who is a resident of the treaty counterparty derive dividend income from the PRC, the individual may be determined as a "beneficial owner".

**Value-Added Tax**

The Interim Provisions on Value-added Tax of the PRC (中華人民共和國增值税暫行條例), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and last amended on November 19, 2017, and the Implementing Rules of the Interim Provisions on Value-added Tax of the PRC (中華人民共和國增值税暫行條例實施細則), promulgated by the MOF and became effective on December 25, 1993, and last amended on October 28, 2011 and took effect on November 1, 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in the PRC shall pay a value-added tax. The tax rate for taxpayers engaging in the sales of goods, labour services, tangible movables lease services or the importation of goods shall be 17% unless otherwise stipulated.

According to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (營業税改徵增值税試點方案), which was promulgated by the MOF and the SAT on November 16, 2011, the government launched gradual taxation reforms starting from January 1, 2012, whereby it collected value-added tax in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

Furthermore, according to the Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax (財政部、國家税務總局關於全面推開營業税改徵增值税試點的通知), all business tax payers in consumer service industry shall pay value-added tax in lieu of business tax from May 1, 2016 and the medical service provided by the medical institution could be the exempted from value-added tax.

**REGULATIONS RELATED TO M&A**

According to the Provisions on the Merger or Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the "**M&A Rules**"), which was jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the STA, the SAIC, the CSRC and the SAFE, on August 8, 2006, came into effect on September 8, 2006 and subsequently amended by the MOFCOM on June 22, 2009, among other things, (i) the purchase of an equity interest or subscription to the increase in the registered capital of non-foreign-invested enterprises, (ii) the establishment of foreign-invested enterprises to purchase and operate the assets of non-foreign-invested enterprises, or (iii) the purchase of the assets of non-foreign-invested enterprises

and the use of such assets to establish foreign-invested enterprises to operate such assets, in each case, by foreign investors shall be subject to the M&A Rules. Particularly, application shall be made for examination and approval of the acquisition of any company in China affiliating to a domestic company, enterprise or natural person, which is made in the name of an oversea company established or controlled by such domestic company, enterprise or natural person.

## LAWS AND REGULATIONS OVER FOREIGN EXCHANGE

The Regulations on the Control of Foreign Exchange of the PRC (中華人民共和國外匯管理條例), which was promulgated by the State Council on January 29, 1996, became effective on April 1, 1996 and was last amended on August 5, 2008, set out that foreign exchange receipts of domestic institutions or individuals may be remitted back to the PRC or deposited abroad and that SAFE shall specify the conditions relating to the requirements, time periods and other aspects of such remittance and deposits in accordance with the international receipts, payments status and requirements of foreign exchange administration. Domestic institutions or individuals that make direct investments abroad or are engaged in the distribution or sale of valuable securities or derivative products overseas shall register according to SAFE regulations. Such institutions or individuals subject to prior approval or record-filing with other competent authority shall complete the required approval or record-filing prior to foreign exchange registration. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

The Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定), which was promulgated by the People's Bank of China on June 20, 1996 and came into effect on July 1, 1996, provides that foreign exchange earnings under the current account of FIEs may be retained to the fullest extent specified by the relevant foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap centre.

On March 30, 2015, the SAFE promulgated the Notice on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (關於改革外商投資企業外匯資本金結匯管理方式的通知) (the "**Circular 19**"), which came into effect on June 1, 2015. According to Circular 19, the foreign exchange capital of FIEs shall be subject to the discretional foreign exchange settlement (the "**Discretional Foreign Exchange Settlement**") and its proportion is temporarily determined as 100%. Furthermore, Circular 19 stipulates that the use of capital by FIEs shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of an FIE and capital in RMB obtained by the FIE from foreign exchange settlement shall not be used for certain purposes as prescribed in the Circular 19. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (關於改革和規範資本項目結匯管理政策的通知) (the "**SAFE Circular 16**"). The SAFE Circular 16 unifies policies on discretionary settlement of foreign exchange receipts under capital accounts of domestic institutions.

Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via 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), which was issued and effected on July 4, 2014, provides that domestic residents shall register with the SAFE and its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and

financing, with assets or equity interests of onshore companies or offshore assets or interests held by the domestic residents, before contributing the onshore or offshore legal assets or interests to the offshore entity. Following the initial registration, any change of basic information such as individual shareholder, name and term of operation or upon capital increase or deduction, share transfer or swap, merger or division and other significant change, shall report to the SAFE for foreign exchange alteration of the registration formality for offshore investment in time.

The Notice on Further Simplifying and Improving Foreign Exchange Administration Policies in Respect of Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), which was issued on February 13, 2015, effected on June 1, 2015 and partially abolished in December 30, 2019, provides that PRC residents may register with qualified banks instead of SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. The SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

## LAWS AND REGULATIONS RELATED TO 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 statutory reserve funds, unless the statutory reserve funds have reached 50% of the registered capital of the enterprises. Wholly foreign-owned enterprises may allocate a portion of their after tax profits based on PRC accounting standards to fund their discretionary reserve funds after they have drawn statutory reserve funds from the after-tax profits, these reserve funds are not distributable as cash dividends.

## LAWS AND REGULATIONS RELATED TO INTERNET INFORMATION SECURITY AND PRIVACY PROTECTION

On November 7, 2016, the SCNPC promulgated the Cybersecurity Law of the PRC (中華人民共和國網絡安全法), which became effective on June 1, 2017, requires network operators to perform certain functions related to cyber security protection and strengthen the network information management. For instance, under the Cybersecurity Law, network operators of key information infrastructure generally shall, during their operations in the PRC, store the personal information and important data collected and produced within the territory of the PRC. When collecting and using personal information, in accordance with the Cybersecurity Law, network operators shall abide by the "lawful, justifiable and necessary" principles. The network operator shall collect and use personal information by announcing rules for collection and use, expressly notify the purpose, methods and scope of such collection and use, and obtain the consent of the person whose personal information is to be collected. The network operator shall neither collect the personal information unrelated to the services they provide, nor collect or use personal information in violation of the provisions of laws and administrative regulations or the agreements with such persons and shall process the personal information they store in accordance with the provisions of laws and administrative regulations and agreements reached with such persons. Network operator shall not disclose, tamper with, or destroy personal information that it has collected, or disclose such information to others without prior consent of the person whose personal information has been collected, unless such information has been processed to prevent specific person from being

identified and such information from being restored. Each individual is entitled to require a network operator to delete his or her personal information if he or she finds that collection and use of such information by such operator violate the laws, administrative regulations, or the agreement by and between such operator and such individual; and is entitled to require any network operator to make corrections if he or she finds errors in such information collected and stored by such operator. Such operator shall take measures to delete the information or correct the error. Any individual or organization may neither acquire personal information by stealing or through other illegal ways, nor illegally sell or provide personal information to others.

On June 10, 2021, the SCNPC issued the Data Security Law of the PRC (中華人民共和國數據安全法) (the "**Data Security Law**"), which became effective on September 1, 2021. The Data Security Law protects the rights and interests of individuals and organizations relating to data, encourages the lawful, reasonable and effective use of data, guarantees the orderly and free flow of data in accordance with the law, and promotes the development of the digital economy with data as a key element, which provides that China shall establish a data classification and grading protection system and data security review system, under which data processing activities that affect or may affect national security shall be reviewed for national security. A decision on security review made in accordance with the law shall be final. Processors of data shall establish a sound data security management system throughout the whole process, organize data security education and training, and take corresponding technical measures and other necessary measures to ensure data security, in accordance with the provisions of laws and regulations. To carry out data processing activities by making use of the Internet or any other information network, the aforesaid obligations for data security protection shall be performed on the basis of the graded protection system for cyber security. Processors of data shall clearly specify responsible personnel and management departments for data security and fully implement data security protection responsibilities. Processing data activities shall strengthen risk monitoring, and where processors discover risks such as data security flaws and vulnerabilities, immediately adopt remedial measures; when data security incidents occur, processors shall immediately take solutions, notify the users as required and report the matter to the relevant competent authorities. Any organization or individual collecting data shall adopt lawful and proper methods and shall not steal data or obtain the data by other illegal means. Relevant authorities will establish the measures for the cross-border transfer of import data. If any company violates the Data Security Law of the PRC to provide important data outside China, such company may be punished by administration sanctions, including penalties, fines, and/or may suspension of relevant business or revocation of the business license. As a processor of data, the Company shall implement the relevant data security management system and protection obligations in the entire process of the business operations and new product development and be in compliance with higher requirements on data security protection from multiple perspectives under the Data Security Law of the PRC and require partners to abide by the requirements accordingly.

On July 30, 2021, the State Council Promulgated the Regulations on Security Protection of Critical Information Infrastructure (關鍵信息基礎設施安全保護條例) (the "**CII Regulation**"), which became effective on September 1, 2021. According to the CII regulation, a critical information infrastructure, or CII, refers to an important network facility or information system in important industries and fields such as public communication and information services, energy, transportation, water conservancy, finance, public services, e-government, national defense technology industry, etc., and CII also refers to other important network facility and information system that may seriously endanger national security, national economy and the people's livelihood, and public interests in the event of damage, loss of function, or data leakage. The competent departments and supervision and management departments of the aforementioned important industries and fields are the departments responsible for the CII security

protection work. They will be responsible for organizing the identification of CIIs in this industry or field in accordance with the identification rules, promptly notify the CII operators of the identification results, and notify the public security department of the State Council.

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council also jointly issue the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (關於依法從嚴打擊證券違法活動的意見) (the "**Combating Illegal Securities Activities Measures**"), which stressed on "improving laws and regulations on data security, cross-border data flow and management of confidential information, speeding up the revisions to regulations on strengthening the confidentiality and document management of securities issuance and listing outside the mainland of the PRC (境外上市) to increase the accountability of entities listed outside the mainland of the PRC to information security, and enhancing standardized management of mechanism and procedure for cross-border data transfer, enhancing the cooperation of cross-border audit supervision".

On July 10, 2021, the Office of the Central Cyberspace Affairs Commission ("**CAC**"), jointly with the relevant authorities, published the Draft Cybersecurity Review Measures, which stipulate that if an operator has collected personal information of over one million users and intends to be listed in a foreign country, it must be subject to the cybersecurity review.

On November 14, 2021, the CAC, jointly with the relevant authorities, published the Administrative Regulations on Internet Data Security (Draft for Comment) ("**Draft Internet Data Security Regulations**"). Pursuant to the Draft Internet Data Security Regulations, data processors who carry out the following activities shall apply for a cybersecurity review in accordance with relevant regulations:

1. the merger, reorganization or division of internet platform operators who have gathered a large number of data resources related to national security, economic development and public interest, which affects or may affect national security;

2. the proposed listing in a foreign country of data processor who processes personal information of over one million people;

3. the proposed listing in Hong Kong of data processor which affects or may affect national security; and

4. other data processing activities that affect or may affect national security.

As advised by our PRC Legal Adviser, we believe that the above-mentioned regulatory changes will not have a material adverse effect on our business operations on the following basis:

1. The Combating Illegal Securities Activities Measures stress on strengthening standardized management of mechanism and procedure for the cross-border data transfer. Our relevant operating data are stored in servers located in the PRC and does not involve cross-border data transmission.

2. We have formulated strict policies such as Information Management Policies, Data Privacy Protection Policies and Data Analysis Management Policies to govern the collection, handling, storage, retrieval, and access of our customer's personal data and medical records. See "Business — Data Privacy and Protection." As of the Latest Practicable Date, we have not received any fines or other penalties in relation to cybersecurity or data protection.

3. The Combating Illegal Securities Activities Measures emphasize strengthening the supervision of China concept stocks (中概股), however, as of the Latest Practicable Date, no specific rules or regulations has been formally adopted. The supervision scope and measures remain unclear.

4. As a medical group specialized in providing hair-related healthcare services, we only collect limited data of our customers primarily for communications, treatments planning and delivery of our services and products. Our directors believe that our proposed [**REDACTED**] in Hong Kong will not affect national security. In view of the above and considering the nature of our business and scope of our collection and usage of data, our PRC Legal Adviser is of the view that the risk of us being required to undertake a cybersecurity review is low.

However, our PRC Legal Adviser also advised that since the Draft Cybersecurity Review Measures and the Draft Internet Data Security Regulations have not been formally promulgated and no specific rules and regulations have been adopted under the Combating Illegal Securities Activities Measures, there remains substantial uncertainties regarding the enactment timetable, interpretation, and application. Accordingly, if a final version of the Draft Cybersecurity Review Measures and the Draft Internet Data Security Regulations are adopted, we may be subject to review when conducting data processing activities. We (including our Contractual Arrangements) may also be subject to more severe supervision once the specific rules or regulation are adopted under the Combating Illegal Securities Activities Measures. we will actively monitor policy changes, consult our PRC Legal Adviser regularly, and review and update our internal measures and standards on cybersecurity from time to time to ensure strict compliance with all applicable laws and regulations.

## OVERVIEW

Mr. Zhang, our founder, started hair transplant business in Beijing since 2005. Mr. Zhang recognized the growth potential of the hair transplant business in China and embarked upon establishing independent hair transplant brand. In 2010, Mr. Zhang first established hair transplant business with the brand name Yonghe ("雍禾"). After years of dedication and commitment, we have developed our hair transplant business to a market leading position. As of the Latest Practicable Date, we operated 53 clinics in 52 cities nationwide.

In preparation for the [**REDACTED**], our Group underwent the Reorganization to streamline our shareholding structure. Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on September 17, 2020 and is the holding Company of our Group. For details of our corporate restructuring, see the paragraphs headed "Reorganization" in this section.

## BUSINESS MILESTONES

The following table sets forth certain key business development milestones of our Group:

| Year | Milestones |
|---|---|
| 2005 | Mr. Zhang started hair transplant business in Beijing |
| 2010 | Mr. Zhang first established hair transplant business with the brand name Yonghe ("雍禾") |
| | We formulated China's first hair transplant industry standard which was being reported by CCTV and became the first transplant service provider in China that had obtained the ISO certification |
| 2013 | We started to map out a nationwide business coverage and dedicated to own and operate all chain hospitals by ourselves |
| 2014 | We pioneered in entering into five service quality assurance agreements with each patient before hair transplant surgeries to enhance patient experience |
| | We started to live-stream the whole hair transplant procedures to promote the transparency of the industry |
| 2017 | CYH and Panmao Shanghai invested in our Group and became our Controlling Shareholders |
| | We introduced high-end service team, named "Yongxiang (雍享)", to provide personalized hair transplant services |
| | We have 22 clinics in operation at the end of the period |

| Year | Milestones |
|---|---|
| 2018 | We initiated a charity project "Yonghe Caring for Hair Loss Program" (雍禾脱髮愛計劃) |
| | We were approved as national high-tech enterprise |
| | We have 30 clinics in operation at the end of the period |
| 2019 | We have 37 clinics in operation at the end of the period |
| 2020 | We strategically cooperated with Ping An Property & Casualty to launch hair transplant insurance, the first insurance product in industry |
| | We have 48 clinics in operation at the end of the period |
| 2021 | We have 53 clinics in total as of the Latest Practicable Date |

## CORPORATE DEVELOPMENT

The following sets forth the major corporate history and shareholding changes of our Group.

### Beijing Haiyouyou

Our business operations in China were primarily conducted through our principal subsidiary, Beijing Haiyouyou. The following sets forth the major corporate history and shareholding changes of Beijing Haiyouyou.

#### *1. Incorporation of Beijing Haiyouyou in 2015*

Beijing Haiyouyou was established by Mr. LAN Feng and Mr. MA Liwei, both are Independent Third Parties, in the PRC on September 2, 2015 with an initial registered capital of RMB10,000,000. The Shareholding structure of Beijing Haiyouyou upon its incorporation was as set forth below:

| Name of Shareholders | Share Capital | Shareholding Percentage |
|---|---|---|
| | *(RMB)* | |
| Mr. LAN Feng (蘭楓) | 9,900,000 | 99% |
| Mr. MA Liwei (馬立偉) | 100,000 | 1% |
| **Total** | **10,000,000** | **100%** |

### *2. Acquisition by Beijing Xunyi in 2016*

On December 13, 2016, Beijing Xunyi acquired 100% of equity interests in Beijing Haiyouyou from Mr. LAN Feng and Mr. MA Liwei at a nominal consideration. The consideration of the equity transfer was determined based on arm's length negotiations among the parties taking into consideration the dormant status of Beijing Haiyouyou at the time of acquisition. The equity transfer was properly and legally completed on December 14, 2016. Upon completion of the equity transfer, Beijing Haiyouyou was wholly owned by Beijing Xunyi.

Beijing Xunyi is a company incorporated in the PRC on November 16, 2016 with a registered capital of RMB100,000. At the time of its establishment, Beijing Xunyi was owned by Mr. ZHANG Hui, brother of Mr. Zhang, as to 85% and by Mr. Zhang as to 15%. Pursuant to a capital contribution transfer agreement on June 28, 2018 between Mr. Zhang and Mr. ZHANG Hui, and as of the Latest Practicable Date, Beijing Xunyi is owned by Mr. Zhang as to 85% and by Mr. ZHANG Hui as to 15%.

### *3. Capital Increase and Share transfers in 2017*

In June 2017, Beijing Xunyi, CYH, Panxin Shanghai, Xizang Yonghe and Beijing Haiyouyou entered into a share capital increase and subscription agreement, pursuant to which, (i) CYH subscribed for 6.625% of the enlarged share capital of Beijing Haiyouyou at a consideration of RMB33,125,000; (ii) Panxin Shanghai subscribed for 6.625% of the enlarged share capital of Beijing Haiyouyou at a consideration of RMB33,125,000; (iii) Xizang Yonghe subscribed for 1.75% of the enlarged share capital of Beijing Haiyouyou at a consideration of 8,750,000. The share capital increase was properly and legally completed on July 27, 2017. The consideration for the above share subscription was determined at arm's length negotiation between the parties with reference to the earnings and growth prospect of Beijing Haiyouyou. Upon completion of the capital increase, the registered share capital of Beijing Haiyouyou increased from RMB10,000,000 to RMB11,764,706, and Beijing Haiyouyou was owned by Beijing Xunyi, CYH, Panxin Shanghai and Xizang Yonghe (西藏永禾) as to 85%, 6.625%, 6.625% and 1.75%, respectively.

For detailed information of CYH, see "Substantial Shareholders" in this document. The general partner of Panxin Shanghai is Shanghai Panxin Mezzanine Investment Management Company Limited (上海磐信夾層投資管理有限公司) ("**Shanghai Panxin Mezzanine Investment Management**"), a company incorporated in the PRC with limited liability on July 12, 2011 and wholly-owned by CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) ("**CITIC PE**"). For detailed information of CITIC PE, see section headed "Substantial Shareholders" in this document. Xizang Yonghe is a limited partnership incorporated in the PRC on December 30, 2016. The general partner of Xizang Yonghe was Xizang Ruizhe Investment Management Company Limited (西藏瑞哲投資管理有限公司), which is wholly owned by Shanghai Panxin Mezzanine Investment Management.

In August 2017, Beijing Xunyi entered into a share transfer agreement with Wulian Yuhui Network Technology Partnership (Limited Partnership) (五蓮玉輝網絡科技合夥企業(有限合夥)) ("**Wulian Yuhui**"), a limited partnership established and controlled by Mr. Zhang, pursuant to which, Beijing Xunyi transferred 45% of the shareholding in Beijing Haiyouyou to Wulian Yuhui at nil consideration. On the same date, Panxin Shanghai entered into a share transfer agreement with Panmao Shanghai, pursuant to which Panxin Shanghai transferred its entire shareholding in Beijing Haiyouyou to Panmao Shanghai at nil consideration. The general partner of Panmao Shanghai is Shanghai Pannuo

Corporate Management Service Company Limited (上海磐諾企業管理服務有限公司) which is wholly-owned by CITIC PE. The share transfers were properly and legally completed on September 22, 2017. Upon completion of the share transfers, Beijing Haiyouyou was owned by Beijing Xunyi, Wulian Yuhui, CYH, Panmao Shanghai and Xizang Yonghe as to 40%, 45%, 6.625%, 6.625% and 1.75%, respectively.

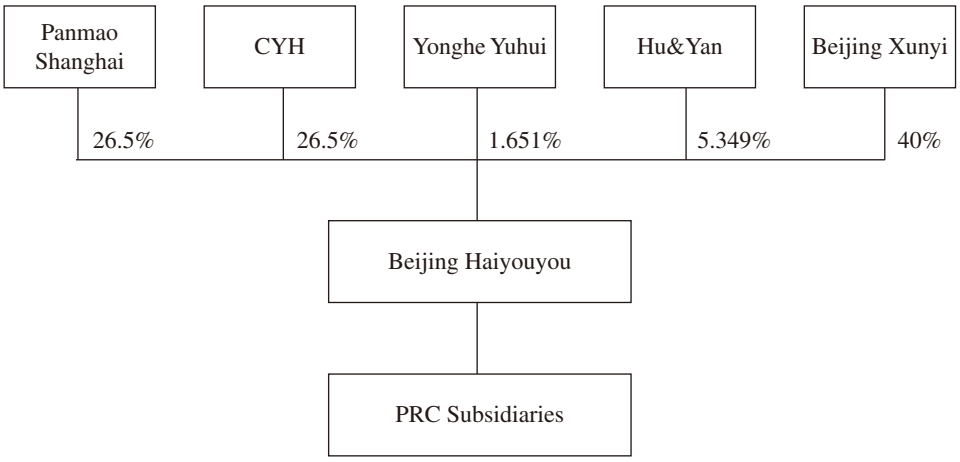
On October 25, 2017, Wulian Yuhui, CYH, Panmao Shanghai and Xizang Yonghe entered into a share transfer agreement, pursuant to which, Wulian Yuhui (i) transferred 19.875% of the shareholding in Beijing Haiyouyou to CYH at a consideration of RMB109,312,500, (ii) transferred 19.875% of the shareholding in Beijing Haiyouyou to Panmao Shanghai at a consideration of RMB109,312,500, (iii) transferred 5.25% of the shareholding in Beijing Haiyouyou to Xizang Yonghe at a consideration of RMB28,875,000. The share transfers were properly and legally completed on October 30, 2017. The consideration for the above share transfers was determined at arm's length negotiation between the parties with reference to the earnings and growth prospect of Beijing Haiyouyou. The Shareholding structure of Beijing Haiyouyou upon completion of the above share transfers was as set forth below:

| **Name of Shareholders** | **Share Capital** | **Shareholding Percentage** |
|---|---|---|
| | *(RMB)* | |
| Beijing Xunyi (北京迅翼) | 4,705,882 | 40% |
| CYH | 3,117,647 | 26.5% |
| Panmao Shanghai (磐茂上海) | 3,117,647 | 26.5% |
| Xizang Yonghe (西藏永禾) | 823,530 | 7% |
| **Total** | **11,764,706** | **100%** |

***4. Share Transfers in 2020***

Xizang Yonghe changed its name to Yonghe Yuhui (永禾玉輝) on January 10, 2020. In June 2020, Yonghe Yuhui and Hu&Yan Healthcare Investment Limited ("**Hu&Yan**") entered into a share transfer agreement, pursuant to which, Yonghe Yuhui transferred 5.349% of the shareholding in Beijing Haiyouyou to Hu&Yan at a consideration of RMB31,625,000. The share transfers was properly and legally completed on July 10, 2020. The consideration for the share transfer was determined at arm's length negotiation between the parties with reference to earning and growth prospects of Beijing Haiyouyou. Upon completion of the share transfers, Beijing Haiyouyou was owned by Beijing Xunyi, CYH, Panmao Shanghai, Hu&Yan and Yonghe Yuhui as to 40%, 26.5%, 26.5%, 5.349% and 1.651%, respectively. Hu&Yan is a company incorporated in Hong Kong and wholly-owned by Mr. HU Tenghe, an employee of Citron PE Investment (Hong Kong) Limited and an Independent Third Party.

A simplified shareholding structure of Beijing Haiyouyou upon completion of the above shareholding changes is set out as below:




See "— Reorganization" in this section for the shareholding changes of Beijing Haiyouyou in preparation for the [**REDACTED**].

**Yonghe Investment**

Yonghe Investment was established in the PRC on September 30, 2015 with an initial registered capital of RMB2,000,000. Upon its establishment, Yonghe Investment was owned as to 85% by Mr. Zhang and 15% by Mr. ZHANG Hui. All of our hair transplant medical institutions in mainland China were wholly-owned by Yonghe Investment before Reorganization.

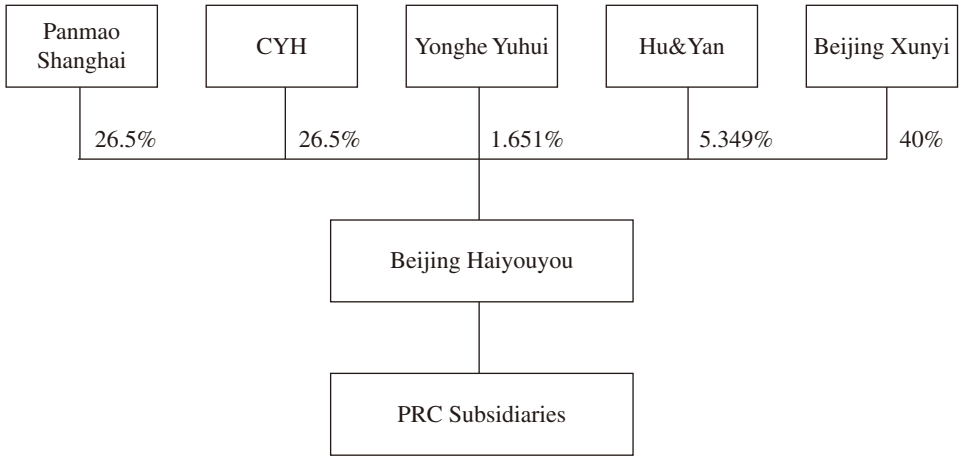
On October 3, 2017, Mr. Zhang and Mr. ZHANG Hui transferred their entire equity interest in Yonghe Investment to Beijing Haiyouyou at nil consideration. On June 5, 2018, the registered capital of Yonghe Investment was increased to RMB10,000,000 by contribution of RMB8,000,000 by Beijing Haiyouyou and such registered capital was fully paid up on June 15, 2018.

In preparation for the Contractual Arrangement, Beijing Xunyi contributed RMB4,285,714.3 to the registered share capital of Yonghe Investment. Upon completion of the share subscription, Yonghe Investment was owned by Beijing Haiyouyou and Beijing Xunyi as to 70% and 30%, respectively. See "Reorganization — Onshore Reorganization — Step 1. Onshore Shareholding Adjustments" for details.

## REORGANIZATION

### Shareholding Structure before Reorganization

The following chart sets forth our Group's simplified corporate and shareholding structure immediately prior to the commencement of the Reorganization.




### Onshore Reorganizations

To ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange and to streamline our corporate structure, our Group underwent the following onshore reorganization.

***Step 1. Onshore Shareholding Adjustments***

*Transfer of equity interests in certain entities by Yonghe Investment to Beijing Haiyouyou*

Yonghe Investment transferred its entire equity interests in the entities which does not engage in restricted or prohibited foreign investment business pursuant to the applicable PRC laws and regulations to Beijing Haiyouyou or its wholly owned subsidiaries. Specifically, Yonghe Investment transferred (i) the 100% equity interests it owned in Beijing Maoduoduo to Beijing Yunyihui on October 22, 2020, for a consideration of RMB5 million, being the registered share capital of Beijing Maoduoduo; (ii) the 100% equity interests it owned in Beijing Yunmao to Yonghe Research Laboratory on November 3, 2020, for a consideration of RMB5 million, being the registered share capital of Beijing Yunmao; (iii) the 100% equity interests it owned in Yonghe Research Laboratory to Beijing Haiyouyou on December 7, 2020, for a consideration of RMB500,000, being the registered share capital of Yonghe Research Laboratory; (iv) the 100% equity interests it owned in Jinan Yongxin Medical Technology Company Limited (濟南雍信醫療科技有限公司) to Yonghe Research Laboratory on March 12, 2021, for a nil consideration; and (v) the 100% equity interests it owned in Chengdu Yonghe to Beijing Haiyouyou on November 17, 2020 for a consideration of RMB500,000, being the registered share capital of Chengdu Yonghe.

*Share Capital Increase in Yonghe Investment and Chengdu Yonghe by Beijing Xunyi*

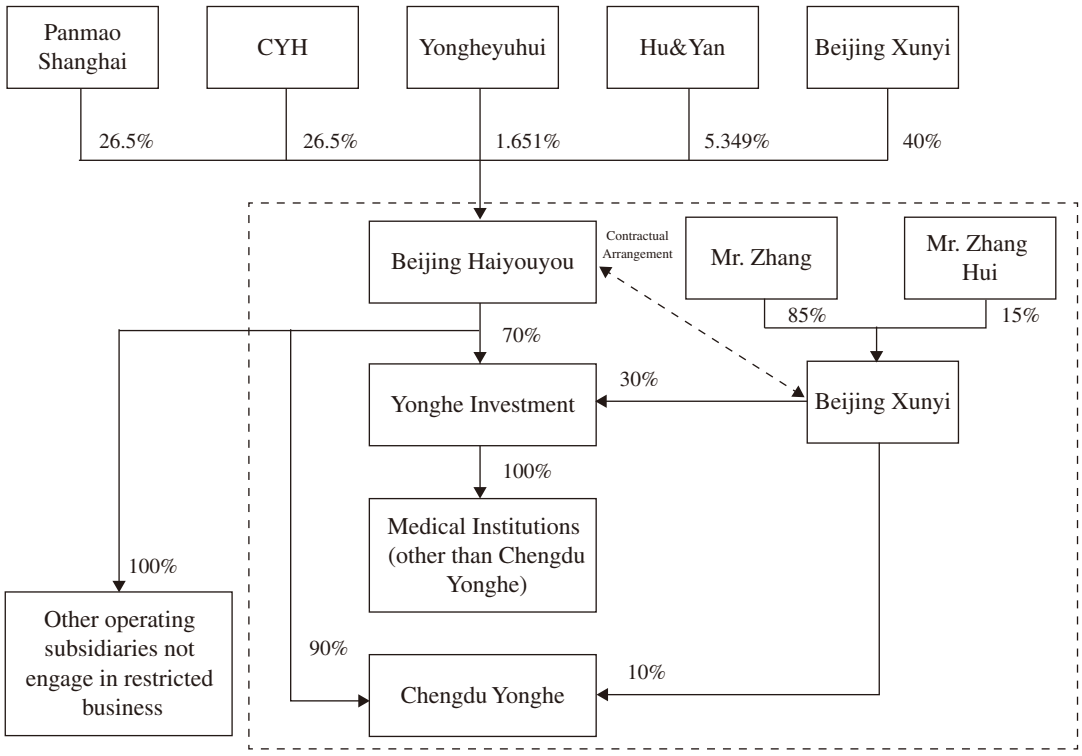
Before the share capital increase, Yonghe Investment was wholly-owned by Beijing Haiyouyou. On November 27, 2020, Beijing Xunyi contributed RMB4,285,714.3 to Yonghe Investment, resulting in the increase in the registered capital of Yonghe Investment to RMB14,285,714.3. Immediately after such capital contribution, Yonghe Investment was held as to 70% by Beijing Haiyouyou and as to 30% by Beijing Xunyi. The consideration for such capital contribution was fully paid up on June 10, 2021.

Before the share capital increase, Chengdu Yonghe was wholly-owned by Beijing Haiyouyou. On November 30, 2020, Beijing Xunyi contributed RMB55,556 to Chengdu Yonghe, resulting in the increase in the registered capital of Chengdu Yonghe to RMB555,556. Immediately after such capital contribution, Chengdu Yonghe was held as to 90% by Beijing Haiyouyou and as to 10% by Beijing Xunyi. The consideration for such capital contribution was fully paid up on June 10, 2021.

***Step 2. Contractual Arrangements***

On January 6, 2021, Beijing Haiyouyou, Yonghe Investment (together with all the medical institutions it owned), Chengdu Yonghe, Beijing Xunyi, Mr. Zhang and Mr. ZHANG Hui entered into various agreements constituting the Contractual Arrangements, pursuant to which substantially all economic benefits arising from the business of our medical institutions are transferred to Beijing Haiyouyou to the extent permitted under PRC laws and regulations by means of the service fees payable to Beijing Haiyouyou. Contractual Arrangement will be reproduced in relation to new Medical Institutions established after the date of the above mentioned agreements. See "— Contractual Arrangements" in this document for further details of the Contractual Arrangements.

Upon completion of the above shareholding adjustments, the onshore shareholding structure of our Group is as below:




*Notes:*

1. Mr. Zhang and Mr. Zhang Hui are the Registered Shareholders.
2. "—▶" denotes direct legal and beneficial ownership in the equity interest.
3. "◀---▶" denotes contractual relationship.
4. "---" denotes the entities that are subject to the Contractual Arrangements.

## Offshore Reorganizations

### *Step 1. Incorporation of Our Holding Structure*

*Incorporation of our Company*

Our Company was incorporated in the Cayman Islands on September 17, 2020 as an exempted company with limited liability as the holding company of our Group. The initial authorized share capital of our Company was US$50,000 divided into 5,000,000,000 Shares with a par value of US$0.00001 each. Upon incorporation, one Share of par value US$0.00001 was allotted and issued to Sertus Nominees (Cayman) Limited, and was subsequently transferred to ZhangYu Hair Service Holdings Limited, a special purpose vehicle incorporated in the BVI and wholly owned by Mr. Zhang.

*Share Subscription by Shareholders of Beijing Haiyouyou*

On September 17, 2020, ultimate beneficial owners of Beijing Xunyi and Yonghe Yuhui, who are individual persons, through their respective special purpose vehicles incorporated in the BVI subscribed Shares in our Company in proportion to their ultimate shareholdings in Beijing Haiyouyou respectively. On January 29, 2021, Panmao Shanghai through Yonghe Hair Service Holdings Limited ("**Yonghe Hair Service**"), its special purpose vehicle incorporated in BVI, CYH and Hu&Yan subscribed Shares in our Company in proportion to their shareholdings in Beijing Haiyouyou respectively. Details of the Share subscriptions to the relevant Shareholders are summarized below:

| Name of Shareholder | Beneficial Owner | Number of Shares Subscribed | Consideration Paid |
|---|---|---|---|
| ZhangYu Hair Service Holdings Limited ("**ZhangYu Hair Service**") | ZHANG Yu (張玉) | 34,000,000 | par value of the Shares |
| ZhangHui Hair Service Holdings Limited ("**ZhangHui Hair Service**") | ZHANG Hui (張輝) | 6,000,000 | par value of the Shares |
| NieLei Hair Service Holdings Limited ("**NieLei Hair Service**") | NIE Lei (聶磊) | 1,090,000 | par value of the Shares |
| JiaQi Hair Service Holdings Limited ("**JiaQi Hair Service**") | GENG Jiaqi (耿嘉琦) | 190,000 | par value of the Shares |
| SiQi Hair Service Holdings Limited ("**SiQi Hair Service**") | DUAN Siqi (段斯琪) | 190,000 | par value of the Shares |
| TanXu Hair Service Holdings Limited ("**TanXu Hair Service**") | TAN Xu (譚旭) | 90,000 | par value of the Shares |
| LinFeng Hair Service Holdings Limited ("**LinFeng Hair Service**") | SONG Linfeng (宋林峰) | 90,000 | par value of the Shares |
| Yonghe Hair Service | Panmao Shanghai | 26,500,000 | RMB70,235,414.5 |
| CYH | CYH | 26,500,000 | Equity interests in Beijing Haiyouyou through share exchange |
| Hu&Yan[(note)] | HU Tenghe (胡騰鶴) | 5,350,000 | Equity interests in Beijing Haiyouyou through share exchange |
| **Total** | | **100,000,000** | |

*Note:* Hu&Yan transferred its entire shareholdings in our Company at nil consideration to Ever Horizon Developments Limited ("**Ever Horizon**"), a special purpose vehicle incorporated in the BVI and is also wholly owned by HU Tenghe on February 1, 2021.

The consideration for the subscribed Shares were determined after arm's length negotiations between the parties. The cash considerations for the above share subscriptions was fully settled on June 4, 2021, and the shares exchanges were completed on May 10, 2021.

*Incorporation of the BVI Subsidiary*

Yonghe Management Consulting Co., Ltd. ("**Yonghe Management Consulting**") was incorporated in the BVI on September 25, 2020 and is wholly-owned by our Company.

*Incorporation of the Hong Kong Subsidiary*

Yonghe Medical Holdings Limited ("**Yonghe Medical Holdings**") was incorporated in Hong Kong on October 9, 2020 with limited liability and is wholly-owned by Yonghe Management Consulting.

***Step 2. Share Transfer to Mr. Zhang and Employee Incentive Scheme***

In order to incentivize our founder and key employees, the then Shareholders (other than Mr. Zhang and Mr. ZHANG Hui) agreed to transfer a total of 8% of the then issued Shares to Mr. Zhang and our employee incentive platform, Zhirui Technology Holdings Limited. On April 23, 2021, the then Shareholders (other than Mr. Zhang and Mr. ZHANG Hui) of our Company (the "**Transferors**") transferred in total of 5,000,000 and 3,000,000 Shares (representing 5% and 3% of the then issued Shares in our Company, respectively) to Yunuo Technology Holdings Limited and Zhirui Technology Holdings Limited, at a consideration of RMB69,427,083 and RMB41,656,250, respectively. The Shares transferred was in proportion to the Transferors' respective shareholding in our Company.

Details of the Share transfers to Yunuo Technology Holdings Limited are summarized below:

| Transferor | NieLei Hair Service | JiaQi Hair Service | SiQi Hair Service | TanXu Hair Service | LinFeng Hair Service | Ever Horizon | Yonghe Hair Service | CYH |
|---|---|---|---|---|---|---|---|---|
| Shares transferred | 90,834 | 15,833 | 15,833 | 7,500 | 7,500 | 445,834 | 2,208,333 | 2,208,333 |
| Approximate share percentage in the Company | 0.08% | 0.02% | 0.02% | 0.01% | 0.01% | 0.44% | 2.21% | 2.21% |
| Consideration (RMB) | 1,261,268 | 219,848 | 219,848 | 104,141 | 104,141 | 6,190,591 | 30,663,624 | 30,663,624 |
| Transferee | Yunuo Technology Holdings Limited | | | | | | | |
| Completion date | April 23, 2021 | | | | | | | |

Details of the Share transfers to Zhirui Technology Holdings Limited are summarized below:

| Transferor | NieLei Hair Service | JiaQi Hair Service | SiQi Hair Service | TanXu Hair Service | LinFeng Hair Service | Ever Horizon | Yonghe Hair Service | CYH |
|---|---|---|---|---|---|---|---|---|
| Shares transferred | 54,500 | 9,500 | 9,500 | 4,500 | 4,500 | 267,500 | 1,325,000 | 1,325,000 |
| Approximate share percentage in the Company | 0.0545% | 0.0095% | 0.0095% | 0.0045% | 0.0045% | 0.2675% | 1.325% | 1.325% |
| Consideration (RMB) | 756,756 | 131,911 | 131,911 | 62,484 | 62,484 | 3,714,350 | 18,398,177 | 18,398,177 |
| Transferee | Zhirui Technology Holdings Limited | | | | | | | |
| Completion date | April 23, 2021 | | | | | | | |

Yunuo Technology Holdings Limited is incorporated in the British Virgin Islands on January 15, 2021 and is wholly owned by Mr. Zhang. Zhirui Technology Holdings Limited is our employee incentive platform. For detailed information of Zhirui Technology Holdings Limited, see "Employee Incentive Scheme" in this section.

The considerations for the above Share transfers were determined after arm's length negotiations between the parties with reference to the valuation of our Group at the time of share subscriptions by our key employees in the employee incentive platform and was fully settled on May 25, 2021. The consideration for the Share transfer to Zhirui Technology Holdings Limited was self-funded by the key employees who had subscribed shares in the employee incentive platform.

***Step 3. Family Trust Arrangement***

On March 25, 2021, Mr. Zhang and Mr. ZHANG Hui established their respective family trust and transferred their equity interests in our Company held through ZhangYu Hair Service Holdings Limited and ZhangHui Hair Service Holdings Limited to their respective family trusts on April 22, 2021. For detailed information of the family trust arrangement, see "Establishment of Family Trusts" below.

***Step 4. Share Issuance to ZY Family Trust***

To further incentivise our founder, on April 26, 2021, we issued 6,382,979 Shares to ZY Investment Capital Ltd, representing approximately 6.0% of the Shares of the Company in issue upon completion of the Share issuance. For detailed information of the new Share issuance, see "Share Issuance to The ZY Trust" below.

***Step 5. Acquisition of Onshore Shareholdings***

On May 10, 2021, Beijing Xunyi, Panmao Shanghai, CYH, Hu&Yan and Yonghe Yuhui, being the then shareholders of Beijing Haiyouyou, entered into a share transfer agreement with Yonghe Medical Holdings, our Hong Kong subsidiary, pursuant to which Yonghe Medical Holdings acquired the entire equity interests in Beijing Haiyouyou from each of Beijing Xunyi, Panmao Shanghai, CYH, Hu&Yan and Yonghe Yuhui. The details of the acquisition is set out below. The cash consideration has been fully settled on June 3, 2021.

| Transferor | Percentage of equity interest acquired by Yonghe Medical Holdings | Consideration paid |
|---|---|---|
| Beijing Xunyi | 40% | RMB106,015,720 or equivalent USD |
| Panmao Shanghai | 26.5% | RMB70,235,414.5 or equivalent USD |
| CYH | 26.5% | 26,500,000 Shares of our Company |
| Hu&Yan | 5.349% | 5,350,000 Shares of our Company |
| Yonghe Yuhui | 1.651% | RMB4,375,798.8 or equivalent USD |

**Shareholding Structure after Reorganization**

For our Group's corporate and shareholding structure immediately after the Reorganization, see "Corporate Structure before the [**REDACTED**]" in this section.

## ESTABLISHMENT OF FAMILY TRUSTS

On March 25, 2021, Mr. Zhang, as the settlor, established The ZY Trust with Trident Trust Company (Singapore) Pte Limited as the trustee. On April 22, 2021, Mr. Zhang transferred the entire equity interest in our Company held by ZhangYu Hair Service Holdings Limited by way of gift to Trident Trust Company (Singapore) Pte Limited as trustee indirectly holds Shares on trust through ZY Investment Capital Ltd for the benefits of Mr. Zhang and certain of his family members.

On March 25, 2021, Mr. ZHANG Hui, as the settlor, established The ZH Trust with Trident Trust Company (Singapore) Pte Limited as the trustee. On April 22, 2021, Mr. ZHANG Hui transferred the entire equity interest in our Company held by ZhangHui Hair Service Holdings Limited by way of gift to Trident Trust Company (Singapore) Pte Limited as trustee indirectly holds Shares on trust through ZH Investment Capital Ltd for the benefits of Mr. ZHANG Hui and certain of his family members.

## SHARE ISSUANCE TO THE ZY TRUST

To further incentivize our founder, on April 26, 2021, our Company entered into a share subscription and purchase agreement, pursuant to which we issued 6,382,979 Shares, representing approximately 6.0% of the Shares of the Company in issue upon completion of the Share issuance, to ZY Investment Capital Ltd at a consideration of RMB88,630,000 or equivalent US dollars. The consideration was determined with reference to the post-money valuation of our Group of approximately RMB1.477 billion. The transaction was properly and legally completed on May 17, 2021.

## ACQUISITION OF NU/HART HAIR SOLUTIONS LIMITED

Nu/Hart Hair Solutions Limited was established in Hong Kong and is wholly owned by Zhuhai Xinsiyu Management Service Co., Ltd. (珠海市新絲域管理服務有限公司) ("**Xinsiyu**"), a company incorporated in the PRC with limited liability. In order to expand the Company's international business presence, we through our wholly-owned subsidiary Yuhui Management Holdings Limited, entered into a sale and purchase agreement with Xinsiyu, pursuant to which we purchased the entire issued share capital of Nu/Hart Hair Solutions Limited at a consideration of RMB30 million or equivalent US dollar. The consideration was based on arm's length negotiation between the Company and Xinsiyu. The acquisition was duly completed on May 31, 2021. Xinsiyu is a company incorporated in the PRC and is wholly-owned by Zhuhai Siyu Industrial Development Company Limited (珠海市絲域實業發展有限公司), which is in turn owned by Shenzhen Zhongxiu Xinsheng Investment Center (Limited Partners) (深圳中秀信升投資中心(有限合夥)), a limited partnership managed by CITIC PE.

## PUBLIC FLOAT

Upon completion of the [**REDACTED**] (assuming that [**REDACTED**] is not exercised), the shares held by our core connected persons will not count towards the public float.

The approximately [**REDACTED**]% Shares held by ZY Investment and [**REDACTED**]% Shares held by Yunuo Technology Holdings Limited, both of which are controlled by Mr. Zhang, our executive Director and Controlling Shareholder, will not count towards the public float. In addition, the approximately [**REDACTED**]% Shares held by ZH Investment, which is controlled by Mr. Zhang Hui, our executive Director, will not count towards the public float. Further, the approximately [**REDACTED**]% Shares held by CYH and the approximately [**REDACTED**]% Shares held by Yonghe Hair Service respectively, will not count towards the public float.

Save as disclosed above, to the best of our Directors' knowledge, all other shareholders of our Company are not core connected persons of our Company. As a result, our other existing Shareholders will aggregately hold a total of approximately [**REDACTED**]% of the Shares (upon completion of the [**REDACTED**] without taking into account the Shares which may be allotted and issued under the [**REDACTED**]) which will count towards the public float. Assuming the [**REDACTED**] are allotted and issued to public shareholders, over 25% of our Company's total issued Shares will be held by the public upon completion of the [**REDACTED**] in accordance with 8.08(1)(a) of the Listing Rules.

## EMPLOYEE INCENTIVE SCHEME

In recognition of the contributions of our employees and to incentivize them to further promote our development, Zhirui Technology Holdings Limited (郅睿科技控股有限公司) ("**Zhirui**") was incorporated in the BVI as a limited company on January 15, 2021 as an employee incentive platform for our employees.

Zhirui is wholly-owned by Shanghai Zhixin Technology Partnership (Limited Partnership) (上海郅歆科技合夥企業(有限合夥)) ("**Zhixin**"), a limited partnership incorporated in the PRC on January 13, 2021 with Shanghai Zhizhen Technology Company Limited (上海郅蓁科技有限公司) ("**Zhizhen**"), a company incorporated in the PRC with Ms. HAN Zhimei (韓志梅) as the sole director and shareholder, as its general partner and Shanghai Zhiyou Technology Partnership (Limited Partnership) (上海郅宥科技合夥企業(有限合夥)) ("**Zhiyou**"), Shanghai Zhimin Technology Partnership (Limited Partnership) (上海郅旻科技合夥企業(有限合夥)) ("**Zhimin**"), Shanghai Zhixun Technology Partnership (Limited Partnership) (上海郅勳科技合夥企業(有限合夥)) ("**Zhixun**") as its limited partners owned as to 30.01%, 36.68% and 33.28%, respectively. The general partner of Zhiyou, Zhimin and Zhixun is Zhizhen. The limited partners of Zhiyou, Zhimin and Zhixun include Mr. ZHANG Hui (張輝), Ms. HAN Zhimei (韓志梅), Mr. XU Yang (徐洋), Mr. LI Xiaolong (李小龍) and Mr. HUANG Donghong (黃東紅), being our senior management, and 112 employees of our Group, as of the Latest Practicable Date. On April 23, 2021, the Transferors transferred 3,000,000 Ordinary Shares to Zhirui, representing 2.82% of the total issued share capital of our Company as of the Latest Practicable Date. For details of the share transfer, see "Step 2. Share Transfer to Mr. Zhang and Employee Incentive Scheme" in this section.

## PRC LEGAL COMPLIANCE

### Corporate Structure and Reorganization

Our Reorganization has been legally and properly completed and settled. Our PRC Legal Adviser has confirmed that all regulatory approvals and permits necessary for our Reorganization had been obtained in accordance with the PRC laws and regulations.

### M&A Rules

Pursuant to the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), which were jointly promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the STA, the SAIC, the CSRC and the SAFE on August 8, 2006, came into effect on September 8, 2006 and subsequently amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. According to the Article 11 of the M&A Rules, where a domestic enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic enterprise which is related to or connected with it/him/her, approval from the MOFCOM is required.

Given that (i) CYH, a non-domestic company, is not connected with our Group when it acquired equity interests of Beijing Haiyouyou in July 2017 and October 2017 and such acquisitions were completed in compliance with applicable PRC laws and regulations; (ii) Beijing Haiyouyou was a sino-foreign joint venture when its 100% equity interests was acquired by Yonghe Medical Holdings in May 2021, our PRC Legal Adviser is of the opinion that the onshore reorganization of the Reorganization is not subject to approval from the MOFCOM and the CSRC under the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented, and whether the relevant PRC government authorities, including CSRC, will reach the same conclusion as our PRC Legal Adviser.

**SAFE Circular 37**

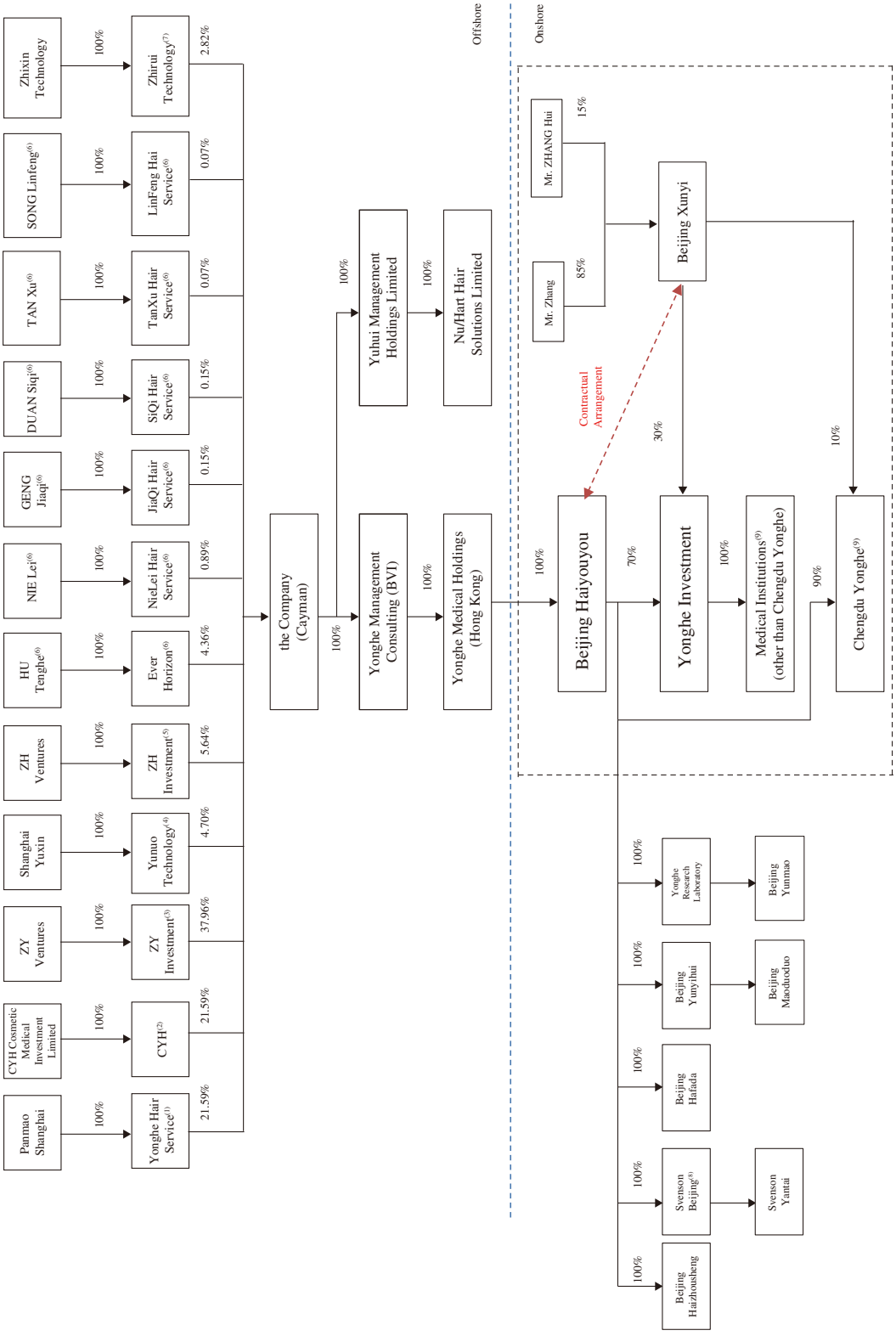
SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular 37**") on July 14, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC resident to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or swap, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle maybe restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

On February 13, 2015, SAFE released the Notice on Further Simplifying the Improving Policies for the Foreign Exchange Administration of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the "**SAFE Circular 13**"), which became effective from June 1, 2015. According to SAFE Circular 13, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37. However, there exists uncertainties with respect to its interpretation and implementation by governmental authorities and banks.

As advised by our PRC Legal Adviser, each of Mr. Zhang, Mr. Zhang Hui, Mr. Nie Lei, Mr. Geng Jiaqi, Ms. Duan Siqi, Mr. Tan Xu and Mr. Song Linfeng has completed the registration for their respective investments in our Company under SAFE Circular 37 and SAFE Circular 13 on October 10, 2020.

## OUR CORPORATE STRUCTURE

### Corporate Structure before the [REDACTED]



*Notes:*

1. Yonghe Hair Service is wholly-owned by Panmao Shanghai, the general partner of which is Shanghai Pannuo, which is in turn wholly-owned by CITIC PE. CITIC PE is owned as to 35% by CITIC Securities Company Limited, a company listed on both the Stock Exchange and the Shanghai Stock Exchange. As of the Latest Practicable Date, Panmao Shanghai has 46 limited partners with no limited partner holding more than 12.4% interest.

2. CYH is wholly owned by CYH Cosmetic Medical Investment Limited, which is owned to approximately 86.3% by CPEChina Fund II and 13.7% by CPEChina Fund IIA. The general partner of CPEChina Fund II and CPEChina Fund IIA is Citron PE Associates II. Citron PE Associates II is an exempted limited partnership registered under the laws of the Cayman Islands whose general partner is Citron PE Funds II. Citron PE Funds II is wholly owned by Citron PE Holdings Limited, formerly known as CITICPE Holdings Limited, which is held as to 35% by CLSA Global Investments Management Limited. CLSA Global Investments Management Limited is wholly owned by CLSA, B.V., which is wholly owned by CITIC Securities International Company Limited, which in turn is wholly owned by CITIC Securities Company Limited. As of the Latest Practicable Date, CPEChina Fund II has 19 limited partners with no limited partner holding more than 17.83% interest, while CPEChina Fund IIA has 3 limited partners, including Maxi Joy Investments Ltd. (holding 56.3% interest and ultimately owned by Bank of China Limited, a company listed on both the Stock Exchange and the Shanghai Stock Exchange), The Norinchukin Bank (holding 16.9% interest and a Japanese cooperative bank headquartered in Tokyo, Japan) and Citron PE Limited (holding 26.8% interest and wholly owned by Citron PE Holdings Limited).

3. ZY Investment Capital Ltd is wholly-owned by ZY Ventures Ltd, which is in turn wholly-owned by Frandor Limited. Frandor Limited is the nominee shareholder of The ZY Trust and is wholly-owned by Trident Trust Company (Singapore) Pte Limited, which is the trustee of The ZY Trust established by Mr. Zhang (as the settlor) and Trident Trust Company (Singapore) Pte Limited (as the trustee) on March 25, 2021.

4. Yunuo Technology Holdings Limited (上海予諾科技控股有限公司) is wholly owned by Shanghai Yuxin Technology Partnership (Limited Partnership) (上海予信科技合夥企業(有限合夥)), the limited partner of which is Mr. Yu Zhang and the general partner of which is Shanghai Yuhe Technology Company Limited (上海予赫科技有限公司), which is in turn wholly-owned by Mr. Yu Zhang.

5. ZH Investment Capital Ltd is wholly-owned by ZH Ventures Ltd, which is in turn wholly-owned by Frandor Limited. Frandor Limited is the nominee shareholder of The ZY Trust and is wholly-owned by Trident Trust Company (Singapore) Pte Limited, which is the trustee of The ZH Trust established by Mr. ZHANG Hui (as the settlor) and Trident Trust Company (Singapore) Pte Limited (as the trustee) on March 25, 2021.

6. Mr. HU Tenghe is an employee of Citron PE Investment (Hong Kong) Limited, which is an affiliate of Citron PE Funds II. Mr. NIE Lei, Mr. GENG Jiaqi and Ms. DUAN Siqi are employees of Beijing Panmao Investment Management Co., Ltd. (北京磐茂投資管理有限公司), which is the fund manager of Panmao Shanghai. Mr. TAN Xu was a former employee of Panxin Shanghai and Mr. SONG Linfeng was a former employee of Panmao Shanghai. Save that Mr. GENG Jiaqi is a non-executive Director, Ms. DUAN Siqi was a past Director of the Company, the other abovementioned individuals are all Independent Third Parties.

7. Zhirui is wholly-owned by Zhixin. The limited partner of Zhixin is Zhizhen and its general partners are Zhiyou, Zhimin and Zhixun. Please see "EMPLOYEE INCENTIVE SCHEME" for details.

8. Svenson Beijing was established in the PRC on November 5, 2003 with an initial registered capital of US$35,000 and is primarily engaged in offering hair care products and anti-hair loss treatment solutions. At the time of its establishment, Svenson Beijing was a wholly foreign-owned company owned by Svenson Hair Centre Limited (史雲遜護髮有限公司), a company incorporated in Hong Kong and an Independent Third Party. On January 22, 2014, Svenson Beijing was acquired by Hainan Beauty Farm Management Service Limited (海南美麗田園管理服務有限公司) ("**Hainan Beauty Farm**"), a company controlled by CITIC PE and in which our non-executive Directors Mr. ZHAI Feng and Mr. GENG Jiaqi are directors. Beijing Haiyouyou acquired Svenson Beijing from Hainan Beauty Farm in December 2017 at a consideration of RMB10 million.

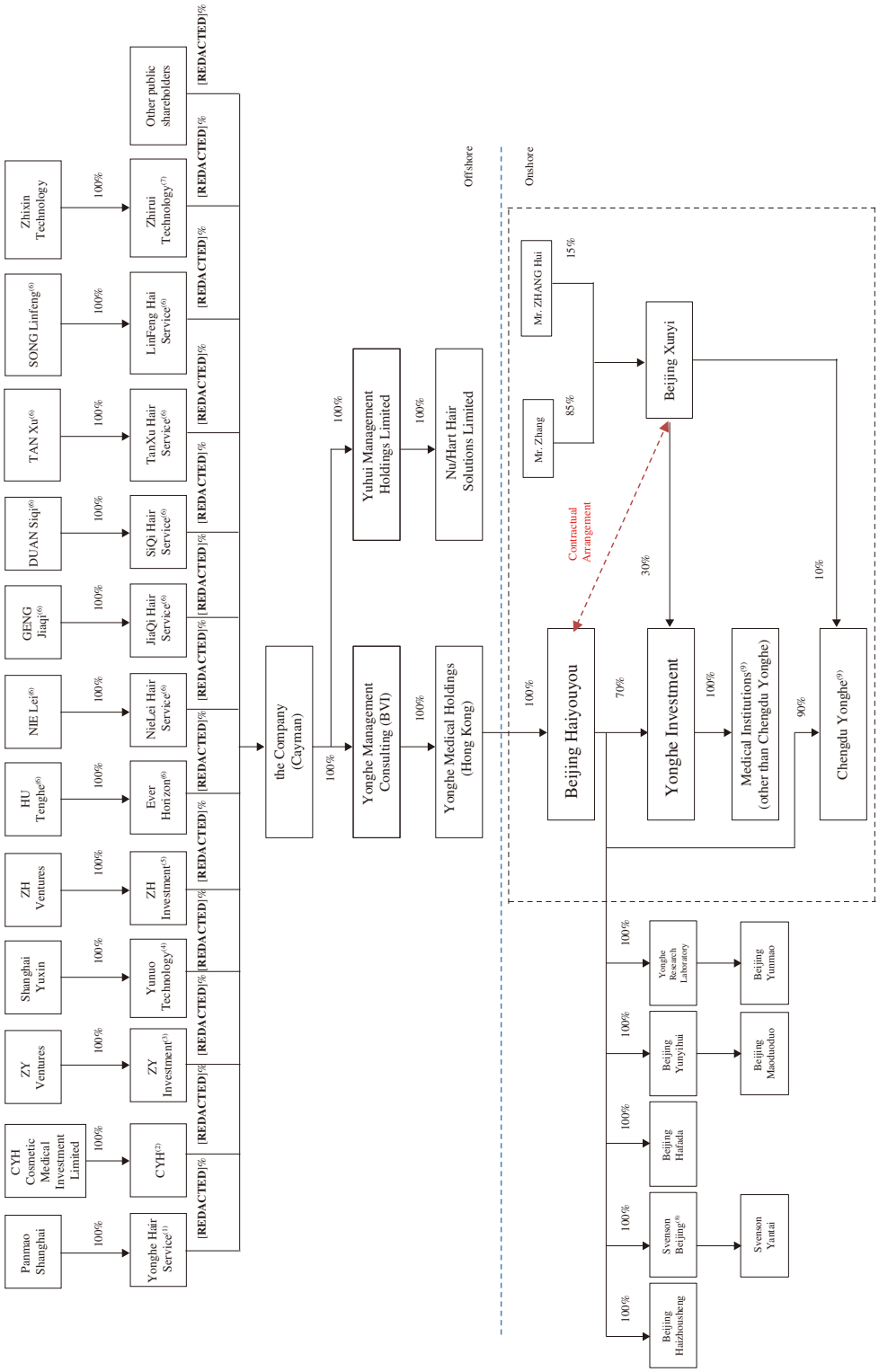
9. As of the Latest Practicable Date, we have 67 Medical Institutions (including 52 clinics in operation and 15 clinics not in operation) in mainland China. Set out below is a list of our Medical Institutions as of the Latest Practicable Date:

| No. | Medical Institutions |
|---|---|
| (1). | Beijing Yonghe Meidu Clinic Co., Ltd. (北京雍禾美度門診部有限公司) ("**Beijing Yonghe**") |
| (2). | Chengdu Wuhou Yonghe Jimei Medical Beauty Clinic Co., Ltd. (成都武侯雍禾既美醫療美容診所有限公司) ("**Chengdu Yonghe**") |
| (3). | Wenzhou Yonghe Medical Beauty Clinic Co., Ltd. (溫州雍禾醫療美容門診部有限公司) ("**Wenzhou Yonghe**") |
| (4). | Fuzhou Yonghe Medical Beauty Clinic Co., Ltd. (福州雍禾醫療美容門診部有限公司) ("**Fuzhou Yonghe**") |
| (5). | Guangzhou Yonghe Medical Beauty Clinic Co., Ltd. (廣州雍禾醫療美容門診部有限公司) ("**Guangzhou Yonghe**") |
| (6). | Hangzhou Yonghe Meidu Medical Beauty Clinic Co., Ltd. (杭州雍禾美度醫療美容診所有限公司) ("**Hangzhou Yonghe Meidu**") |
| (7). | Hangzhou Niufeisi Medical Beauty Clinic Co., Ltd. (杭州紐飛絲醫療美容診所有限公司) ("**Hangzhou Niufeisi**") |
| (8). | Kunming Yonghe Jimei Medical Beauty Co., Ltd. (昆明雍禾既美醫療美容有限公司) ("**Kunming Yonghe**") |
| (9). | Nanjing Yonghe Jimei Medical Beauty Clinic Co., Ltd. (南京雍禾既美醫療美容診所有限公司) ("**Nanjing Yonghe**") |
| (10). | Nanning Yonghe Medical Beauty Co., Ltd. (南寧雍禾醫療美容有限公司) ("**Nanning Yonghe**")<br>Medical Beauty Surgery Clinic of Nanning Yonghe Medical Beauty Co., Ltd. (南寧雍禾醫療美容有限公司醫療美容外科診所) ("**Nanning Yonghe Clinic**") |
| (11). | Xiamen Siming Yonghe Meidu Plastic Surgery Clinic Co., Ltd. (廈門思明雍禾美度整形外科門診部有限公司) ("**Xiamen Yonghe**") |
| (12). | Shanghai Yonghe Aimu Clinic Co., Ltd. (上海雍禾愛慕門診部有限公司) ("**Shanghai Yonghe**") |
| (13). | Shenzhen Yonghe Jimei Medical Beauty Clinic (深圳雍禾既美醫療美容門診部) ("**Shenzhen Yonghe**") |
| (14). | Shenyang Heping Yonghe Medical Beauty Clinic Co., Ltd. (瀋陽和平雍禾醫療美容診所有限公司) ("**Shenyang Yonghe**") |
| (15). | Shijiazhuang Yonghe Medical Services Co., Ltd. (石家莊雍禾醫療服務有限公司) ("**Shijiazhuang Yonghe**")<br>Qiaoxi Medical Beauty Clinic of Shijiazhuang Yonghe Medical Services Co., Ltd. (石家莊雍禾醫療服務有限公司橋西醫療美容診所) ("**Shijiazhuang Yonghe Qiaoxi Clinic**") |
| (16). | Taiyuan Xiaodian Yonghe Medical Beauty Clinic Co., Ltd. (太原市小店區雍禾醫療美容診所有限公司) ("**Taiyuan Yonghe**") |
| (17). | Tianjin Hexi Yonghe Meidu Medical Beauty Co., Ltd. (天津河西區雍禾美度醫療美容有限公司) ("**Tianjin Yonghe**") |
| (18). | Wuhan Yonghe Meidu Medical Beauty Clinic Co., Ltd. (武漢雍禾美度醫療美容門診部有限公司) ("**Wuhan Yonghe**") |
| (19). | Xi'an Yonghe Medical Beauty Co., Ltd. (西安雍禾醫療美容有限公司) ("**Xi'an Yonghe**") |
| (20). | Changsha Yonghe Meidu Medical Beauty Co., Ltd. (長沙雍禾美度醫療美容有限公司) ("**Changsha Yonghe Meidu**") |
| (21). | Zhengzhou Yonghe Meidu Medical Beauty Clinic Co., Ltd. (鄭州雍禾美度醫療美容診所有限公司) ("**Zhengzhou Yonghe**") |
| (22). | Qingdao Yonghe Medical Beauty Clinic Co., Ltd. (青島雍禾醫療美容診所有限公司) ("**Qingdao Yonghe**")<br>Shinan Medical Beauty Clinic of Qingdao Yonghe Medical Beauty Clinic Co., Ltd. (青島雍禾醫療美容診所有限公司市南醫療美容診所) ("**Qingdao Yonghe South Clinic**") |
| (23). | Urumqi Yonghe Medical Beauty Clinic Co., Ltd. (烏魯木齊雍禾醫療美容診所有限公司) ("**Urumqi Yonghe**") |
| (24). | Guiyang Yonghe Medical Beauty Co., Ltd. (貴陽雍禾醫療美容有限公司) ("**Guiyang Yonghe**") |
| (25). | Chongqing Yonghe Medical Beauty Clinic Co., Ltd. (重慶雍禾醫療美容診所有限公司) ("**Chongqing Yonghe**") |
| (26). | Ningbo Yinzhou Yonghe Medical Beauty Clinic Co., Ltd. (寧波鄞州雍禾醫療美容診所有限公司) ("**Ningbo Yonghe**") |
| (27). | Hefei Yonghe Plastic Surgery Clinic Co., Ltd. (合肥雍禾整形外科門診部有限公司) ("**Hefei Yonghe**") |
| (28). | Dongguan Dongcheng Yonghe Medical Beauty Clinic Co., Ltd. (東莞東城雍禾醫療美容門診部有限公司) ("**Dongguan Yonghe**") |
| (29). | Quanzhou Yonghe Plastic Surgery Clinic Co., Ltd. (泉州雍禾整形外科門診部有限公司) ("**Quanzhou Yonghe**") |
| (30). | Dalian Yonghe Medical Beauty Clinic Co., Ltd. (大連雍禾醫療美容診所有限公司) ("**Dalian Yonghe**") |
| (31). | Harbin Yonghe Medical Beauty Clinic Co., Ltd. (哈爾濱雍禾醫療美容門診部有限公司) ("**Harbin Yonghe**") |
| (32). | Wuxi Yonghe Medical Beauty Clinic Co., Ltd. (無錫雍禾醫療美容門診有限公司) ("**Wuxi Yonghe**") |
| (33). | Kunshan Yonghe Medical Beauty Clinic Co., Ltd. (昆山雍禾醫療美容診所有限公司) ("**Kunshan Yonghe**") |

| No. | Medical Institutions |
|---|---|
| (34). | Nantong Yongxin Medical Beauty Clinic Co., Ltd. (南通雍信醫療美容診所有限公司) ("**Nantong Yonghe**") |
| (35). | Zhuhai Yonghe Medical Beauty Clinic Co., Ltd. (珠海雍禾醫療美容診所有限公司) ("**Zhuhai Yonghe**") |
| (36). | Lanzhou Yonghe Medical Beauty Clinic Co., Ltd. (蘭州雍禾醫療美容診所有限公司) ("**Lanzhou Yonghe**") |
| | Chengguan Medical Beauty Clinic of Lanzhou Yonghe Medical Beauty Clinic Co., Ltd. (蘭州雍禾醫療美容診所有限公司城關醫療美容診所) ("**Lanzhou Yonghe Chengguan Clinic**") |
| (37). | Xuzhou Yonghe Medical Beauty Co., Ltd. (徐州雍禾醫療美容有限公司) ("**Xuzhou Yonghe**") |
| (38). | Jiaxing Yonghe Medical Beauty Clinic Co., Ltd. (嘉興雍禾醫療美容門診部有限公司) ("**Jiaxing Yonghe**") |
| (39). | Suzhou Yonghe Medical Beauty Clinic Co., Ltd. (蘇州雍禾醫療美容診所有限公司) ("**Suzhou Yonghe**") |
| (40). | Jinan Yonghe Medical Beauty Clinic Co., Ltd.(濟南雍禾醫療美容診所有限公司) ("**Jinan Yonghe")** |
| | Licheng Medical Beauty Clinic of Jinan Yonghe Medical Beauty Clinic Co., Ltd. (濟南雍禾醫療美容診所有限公司曆城醫療美容診所) ("**Jinan Yonghe Licheng Clinic")** |
| (41). | Nanchang Yonghe Medical Beauty Clinic Co., Ltd. (南昌雍禾醫療美容診所有限公司) ("**Nanchang Yonghe**") |
| (42). | Taizhou Yonghe Medical Beauty Co., Ltd. (台州雍禾醫療美容有限公司) ("**Taizhou Yonghe**") |
| (43). | Xi'an Beilin Yonghe Jimei Medical Beauty Clinic Co., Ltd. (西安碑林雍禾既美醫療美容診所有限公司) ("**Xi'an Beilin Yonghe**") |
| | First Branch Company of Xi'an Beilin Yonghe Jimei Medical Beauty Clinic Co., Ltd. (西安碑林雍禾既美醫療美容診所有限公司第一分公司) ("**Xi'an Beilin Yonghe First Branch**") |
| (44). | Huizhou Yonghe Medical Beauty Clinic Co., Ltd. (惠州雍禾醫療美容診所有限公司) ("**Huizhou Yonghe**") |
| (45). | Foshan Yonghe Plastic Surgery Clinic Co., Ltd. (佛山雍禾整形外科門診有限公司) ("**Foshan Yonghe**") |
| (46). | Zhongshan Yonghe Medical Beauty Clinic Co., Ltd. (中山雍禾醫療美容門診部有限公司) ("**Zhongshan Yonghe**") |
| (47). | Changzhou Yonghe Medical Beauty Clinic Co., Ltd. (常州雍禾醫療美容診所有限公司) ("**Changzhou Yonghe**") |
| (48). | Zhanjiang Yonghe Medical Beauty Co., Ltd. (湛江雍禾醫療美容有限公司) ("**Zhanjiang Yonghe**") |
| (49). | Luoyang Yonghe Medical Beauty Clinic Co., Ltd. (洛陽雍禾醫療美容診所有限公司) ("**Luoyang Yonghe**") |
| (50). | Foshan Yonghe Meidu Medical Beauty Co., Ltd. (佛山雍禾美度醫療美容有限公司) ("**Foshan Yonghe Meidu**") |
| | Shunde Daliang Medical Beauty Clinic of Foshan Yonghe Meidu Medical Beauty Co., Ltd. (佛山雍禾美度醫療美容有限公司順德大良醫療美容診所) ("**Foshan Yonghe Meidu Shunde Clinic**") |
| (51). | Jinhua Yonghe Medical Beauty Clinic Co., Ltd. (金華雍禾醫療美容診所有限公司) ("**Jinhua Yonghe**") |
| (52). | Changsha Yonghe Jimei Medical Beauty Co., Ltd. (長沙雍禾既美醫療美容有限公司) ("**Changsha Yonghe Jimei**") |
| (53). | Beijing Niufeisi Medical Beauty Clinic Co., Ltd. (北京紐飛絲醫療美容診所有限公司) ("**Beijing Niufeisi** ") |
| (54). | Beijing Yonghe Hospital Co., Ltd. (北京雍禾醫院有限公司) ("**Beijing Yonghe Hospital**") |
| (55). | Haikou Yonghe Beauty Plastic Surgery Clinic Co., Ltd. (海口雍禾美容整形外科診所有限公司) ("**Haikou Yonghe**") |
| (56). | Yancheng Yonghe Medical Beauty Co., Ltd. Yannan Yonghe Medical Beauty Clinic (鹽城雍禾醫療美容有限公司鹽南雍禾醫療美容診所) ("**Yancheng Yonghe Yannan Clinic**") |
| (57). | Shanghai Yonghe Hospital Co., Ltd. (上海雍禾醫院有限公司) ("**Shanghai Yonghe Hospital**") |
| (58). | Urumqi Yonghe Meidu Medical Beauty Co., Ltd. (烏魯木齊雍禾美度醫療美容有限公司) ("**Urumqi Yonghe Meidu**") |
| (59). | Yangzhou Yonghe Medical Beauty Clinic Co., Ltd. (揚州雍禾醫療美容診所有限公司) ("**Yangzhou Yonghe**") |
| (60). | Yiwu Yonghe Jimei Medical Beauty Clinic Co., Ltd. (義烏雍禾既美醫療美容診所有限公司) ("**Yiwu Yonghe**") |
| (61). | Zhangzhou Yonghe Medical Beauty Co., Ltd. (漳州雍禾醫療美容有限公司) ("**Zhangzhou Yonghe**") |
| (62). | Shantou Yonghe Medical Beauty Clinic Co., Ltd. (汕頭市雍禾醫療美容診所有限公司) ("**Shantou Yonghe**") |
| (63). | Guiyang Yonghe Jimei Medical Beauty Clinic Co., Ltd. (貴陽雍禾既美醫療美容診所有限公司) ("**Guiyang Yonghe Jimei**") |
| (64). | Guangzhou Svenson Clinic Co., Ltd. ( 廣州史雲遜診所有限公司) ("**Guangzhou Svenson**") |
| (65). | Shenzhen Niufeisi Medical Beauty Clinic (深圳紐飛絲醫療美容診所) ("**Shenzhen Niufeisi**") |
| (66). | Shenzhen Svenson Clinic (深圳史雲遜診所) ("**Shenzhen Svenson**") |
| (67). | Yantai Yonghe Medical Beauty Clinic Co., Ltd. (煙臺雍禾醫療美容診所有限公司) ("**Yantai Yonghe**") |

## Corporate Structure Immediately Following the [REDACTED]

The diagram illustrates the corporate and shareholding structure of our Group immediately following the completion the [REDACTED] (assuming the [REDACTED] is not exercised).




*Note:* Please refer to the notes to "Corporate Structure before the [REDACTED]" in this section.

## OVERVIEW

We are the leading medical group in China specialized in providing hair-related healthcare services in terms of total revenue for 2020. We offer one-stop hair-related healthcare services covering hair transplant, medical hair care, and routine hair restoration and other ancillary services. According to Frost & Sullivan, we are the largest player in China's hair transplant service market with a market share of 10.5% and medical hair care service market with a market share of 4.3%, in terms of total revenue derived from the relevant services in 2020. Among all hair-related healthcare service providers in China, we ranked first in terms of the number of registered physicians at the end of 2020, the number of clinics in operation at the end of 2020, and the number of hair transplant patients for 2020, according to Frost & Sullivan. We adopt a standardized and scalable business model to operate a hair transplant chain consisting of mostly self-operated clinics. As of the Latest Practicable Date, we operated 53 clinics in 52 cities nationwide, making us the largest and most extensive hair transplant clinic chain in China, according to Frost & Sullivan. During the Track Record Period, we opened 29 new clinics in mainland China and acquired one clinic in Hong Kong, achieving the fastest growth among all hair transplant clinic chains in China, and further widening our lead over the runners-up.

Through decades of dedication and commitment to China's hair-related healthcare industry, we have made *Yonghe Hair Transplant* (雍禾植髮) a well-known and highly trusted brand among its peers, and have promoted many major developments and advancements in the industry. We have gone through three stages of development:

- from 2005 to 2009, we gradually built up our in-house team of medical professionals, and accumulated expertise and know-how in providing quality hair transplant services;

- from 2010 to 2017, sticking with the principal of integrity, safety, and transparency, we standardized our medical service procedures, and rapidly expanded our clinic network nationwide. In 2010, we became the first ISO-certified hair transplant service provider in China, and by the end of 2017, we had successfully opened 22 hair transplant clinics across China. In 2017, we obtained investment from CITIC PE, who helped us enhance our corporate governance and further expand our business. In 2017, we acquired the mainland China business of *Svenson*, a globally renowned brand originated from London that had over six decades of experience in offering hair restoration products and services, and also obtained the ownership of all its trademarks registered in the PRC through the acquisition. After reviewing transfer agreements and registered certificates of the relevant trademarks, our PRC Legal Adviser is of the view that we have obtained the relevant trademarks to conduct the business under the brand name of *Svenson* in the PRC because (i) the relevant trademark transfer agreements are effective and legally-binding under the applicable PRC laws and regulations, and (ii) we are the lawfully registered owner of the relevant trademarks. To integrate *Svenson*'s business into ours, we keep the trademarks and most of the original staff and products of the acquired business, while closing certain under-performed stores following the acquisition;

- from 2018 onwards, leveraging our strong medical service capabilities and *Svenson's* extensive experience in hair restoration, we strategically took inroads into the medical hair care service sector and successfully established a *Svenson Medical Hair Care Center* (史雲遜醫學健髮中心) in each of our clinics in mainland China under a "shop-in-shop" model. We also expanded our footprint outside the mainland China in May 2021 by acquiring the

Hong Kong business of *Nu/Hart Hair* (顯赫植髮), a renowned hair transplant service provider originated from the U.S. For the six months ended June 30, 2021, each of the revenue and profit contribution of the acquired business of *Nu/Hart Hair* to our Group was less than 0.1%. In the future, we plan to use the Hong Kong business of *Nu/Hart Hair* as a starting point to further expand our businesses in the Great Bay Area. In addition, through our cooperation with prestigious universities such as Sun Yat-sen University, we are blazing a trail toward collaborative research and development with academia and showing the way forward for the hair-related healthcare service industry. We believe that by breaking those new grounds, we are enhancing our core competitiveness and further strengthening our leading position in the industry.

We have been persistently specializing in the hair-related healthcare service market. Driven by the soaring prevalence of hair problems in China, the increasing disposable income *per capita* of Chinese residents and elevated self-awareness of appearance, China's hair-related healthcare service market is expanding rapidly. According to Frost & Sullivan, the size of the hair-related healthcare service market in China reached RMB18.4 billion in 2020, and is projected to grow to RMB138.1 billion in 2030 with a CAGR of 22.3%. China's hair-related healthcare service market consists of two main parts — the hair transplant service market and the medical hair care service market. Hair transplant is a surgical treatment for hair loss, i.e., alopecia. According to Frost & Sullivan, approximately 250.9 million people suffered from alopecia in China in 2020. Medical hair care integrates various non-surgical treatment methods, such as medical devices and medications, and is able to address the diversified needs of a larger patient pool with various scalp and hair problems. According to Frost & Sullivan, China's hair transplant service market reached RMB13.4 billion in 2020, and is projected to grow to RMB75.6 billion in 2030 with a CAGR of 18.9%. China's medical hair care service market is still at an early stage of development with a market size of only RMB5.0 billion in 2020, but is believed to harbor huge growth potential and is expected to grow to RMB62.5 billion in 2030 at a CAGR of 28.7%. We are the largest service provider in each of hair transplant service market and the medical hair care service market in China by revenue derived from the relevant services in 2020, according to Frost & Sullivan. With our industry-leading prowess in medical examination and diagnosis, and continuing innovation in product and service offerings, we believe we are well-positioned to capture the huge growth potential of China's hair-related healthcare service market.

Our in-house professional medical staff is at the core of our hair-related healthcare services. Leveraging our standardized and proven physician training system, as of the Latest Practicable Date, we had built a professional medical team consisting of 1,233 members, including 246 registered physicians and 919 nurses. By standardizing our diagnostic and therapeutic service system, we are able to provide consistent, high-quality medical services and achieve rapid expansion of clinics without compromising the quality of service.

Leveraging our standardized and highly scalable business model, we have achieved industry-leading operational capabilities, enabling us to effectively control costs, boost operational efficiency and improve profitability. During the Track Record Period, our gross profit margin remained largely stable, while our administrative expenses as a percentage of our total revenue continued to decrease.

We have built a one-stop shop for medical hair care services to meet the medical demands of different patients. We continue to improve our diagnostic, therapeutic, and research and development capabilities by collaborating with experts from Class IIIA hospitals and renowned academic institutions.

In addition, to continuously improve medical service to patients, to stay ahead of the technological curve and to propel business development, we have always been actively promoting and adopting new technologies in our business, including data usage and analysis, intelligent services and online services. We believe that such strengths have reinforced our industry-leading position and will sustain our growth momentum into the future.

We experienced significant growth during the Track Record Period. Our total revenue increased by 31.1% from RMB934.3 million in 2018 to RMB1.22 billion in 2019, and grew by another 33.8% to RMB1.64 billion in 2020. For the six months ended June 30, 2021, our revenue amounted to RMB1.05 billion, representing an increase of 75.1% as compared to the corresponding period in 2020. While our revenue was generated mainly from rendering hair transplant services, revenue from medical hair care services grew rapidly over the same period. We recorded a net profit of RMB53.5 million in 2018, RMB35.6 million in 2019, RMB163.3 million in 2020 and RMB40.4 million for the six months ended June 30, 2021. The total number of patients receiving our treatments increased by 41.7% from 35,177 in 2018 to 49,851 in 2019, and further increased by 82.7% to 91,069 in 2020. In the six months ended June 30, 2021, the total number of patients receiving our treatments reached 68,112. Our clinics' average initial breakeven period is approximately three months and their average cash investment payback period is approximately 14 months, better than the average for private medical institutions in China, according to Frost & Sullivan. Further, our overall same-store sales grew by 18.4% between 2018 and 2019, by 20.0% between 2019 and 2020, and by 52.6% between the six months ended June 30, 2021 and the corresponding period in 2020.

## OUR COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiated us from our competitors:

### China's Largest Hair Transplant Service Provider

We are the largest hair transplant service provider in China. According to Frost & Sullivan, we ranked first in China's hair transplant industry by various key financial and operational indicators, including:

- *Revenue*. We are number one in the industry by total revenue derived from hair transplant in 2020, which amounted to RMB1.4 billion, greater than the next two runners-up combined.

- *Physician headcount.* We are number one in the industry by the number of registered physicians. As of the Latest Practicable Date, we had a total of 246 registered physicians, which again beats the next two runners-up combined.

- *Number of hair transplant clinics.* As of the Latest Practicable Date, we had 53 hair transplant clinics nationwide in 52 cities, putting us ahead of all our competitors.

- *Number of hair transplant patients.* In 2020, we had a total of 50,694 patients receiving our hair transplant surgeries, more than anyone else in the industry.

According to Frost & Sullivan, approximately 250.9 million people suffered from alopecia in China in 2020. In recent years, by a combination of factors, including the increasing disposable income *per capita* of Chinese residents, elevated self-awareness of appearance, and the advances in hair transplants technology, China's hair transplant service market grew rapidly from RMB5.8 billion in 2016 to RMB13.4 billion in 2020 with a CAGR of 23.4%, according to Frost & Sullivan. Yet, that market is far from saturated, with the hair transplant penetration rate (calculated by dividing the number of recipients of hair transplant procedures by the number of alopecia patients) being only approximately 0.2% in 2020. Further, with the advent of aesthetic hair transplant, the expansion of hair transplant options, and service innovations, the customer base for hair transplant in China is expected to expand from alopecia patients to a larger group of consumers seeking to enhance appearance through medical treatment, which is projected to drive China's hair transplant service market to RMB75.6 billion in 2030. According to Frost & Sullivan, public hospitals in China seldom conduct hair transplant, leaving the huge and fast-growing demand for hair transplants among patients in China unmet. In contrast, private hair transplant clinics, leveraging their rich experience in hair transplant surgeries, are better positioned to fulfil such unmet medical needs, which promises great growth potential. In addition, the growing market also brings a growing demand for quality medical care. Market players operating large hair transplant clinic chains are more capable of providing quality assurance for their hair transplant services as compared with small hair transplant service providers, and will be preferred by potential patients.

During the Track Record Period, we grew faster than the overall hair transplant service market in China, thanks to our quality service and industry-leading operational capabilities. Specifically, revenue generated from our hair transplant business increased at a CAGR of 24.1% from 2018 to 2020, while China's hair transplant service market grew at a CAGR of only 16.7% over the same period, putting us at the top of the industry. As a market leader, we are well positioned to capitalize on the upside potential of China's hair transplant service market, and to maintain continuous, rapid growth in the future.

**Nationwide Footprint in Major Metropolitan Centers With Great Growth Potential**

We operate the largest and most extensive hair transplant clinic chain in China. We grew rapidly during the Track Record Period. The number of our hair transplant clinics increased from 30 by the end of 2018 to 37 by the end of 2019, continued to increase to 48 by the end of 2020, and further increased to 52 by June 30, 2021. As of the Latest Practicable Date, we operated 53 clinics in 52 cities nationwide, including in Hong Kong and in four tier-one cities, 15 new tier-one cities, 25 tier-two cities and seven lower-tier cities in mainland China. We plan to strategically expand our operations to more lower-tier cities, in order to serve the unmet needs of our customers.

Following our inception, we firstly made our mark in tier-one cities with large populations and high *per capita* income, where we grew rapidly and became a top market player. In provinces with huge hair transplant demands and high *per capita* income, including Guangdong, Zhejiang, Jiangsu, Fujian and Shandong, we are striving to achieve our full regional concentration strategy by opening clinics in more cities within the relevant provinces. According to Frost & Sullivan, we ranked first with a market share over 10% in each of the five provinces. We typically enter a province by setting up our clinics in the provincial capital first. By leveraging our existing infrastructure, operational experience, and brand recognition in the cities with our presence, we are able to efficiently expand into other cities within the same province. For example, in Guangdong province, after we opened our first clinic in Guangzhou in 2013, we gradually expanded into eight other cities, and became the largest hair transplant chain in Guangdong province.

Meanwhile, we are speeding up our pace to expand to China's tier-two and lower-tier cities as we believe that the growing demands in these cities will drive the next wave of growth of the country's hair

transplant industry. As of the Latest Practicable Date, we had extended our footprint in 25 tier-two cities and seven lower-tier cities. In addition to geographic expansion, we are building four comprehensive medical hair care service hospitals in Beijing, Shanghai, Guangzhou, and Shenzhen to serve more patients with varied hair problems. Our comprehensive medical hair care service hospitals will hire physicians from Class IIIA hospitals to diagnose and treat various hair-related diseases. We will also set up multiple hair-related specialty departments in addition to the hair transplant department, such as alopecia department, re-examination department, international department, and feminine beauty department.

Benefiting from our broad geographical reach, our hair transplant business has experienced rapid growth during the Track Record Period. The total number of our hair transplant patients increased from 35,177 in 2018 to 43,087 in 2019, and further increased to 50,694 in 2020. In the six months ended June 30, 2021, the total number of our hair transplant patients reached 29,480. Our revenue from hair transplant increased from RMB0.9 billion in 2018 to RMB1.2 billion in 2019, and increased further to RMB1.4 billion in 2020. For the six months ended June 30, 2021, our revenue from hair transplant amounted to RMB789.5 million, representing an increase of 39.2% as compared to the corresponding period in 2020. We believe our extensive business network discussed above will bring us closer to a broader patient base and create substantial synergy. That synergy will spark interregional sharing and allocation of medical resources, and result in services of consistently high quality and convenience to patients across the country. For example, the senior experts of our hair transplant clinics regularly tour around different regions to share their expertise, and patients who received treatment at one hair transplant clinic are entitled to our diagnostic and treatment services in our other clinics. We believe that this will ultimately translate into patient loyalty and accrue goodwill to our brand. iiMedia Research, a leading industry data mining and analysis agency and an independent third party, released the "Top Eight China Hair Transplant Chain Brands of 2019" (2019年中國植髮連鎖機構品牌排行榜TOP 8) following a comprehensive survey of China's hair transplant chain brands by using big data analysis models and taking into account several factors, including brand value, market recognition, online sensation, media buzz index, and the Internet Word-of-Mouth index. Our brand "Yonghe Hair Transplant" topped that rank.

**Industry-Leading Operational and Medical Service Capabilities**

We possess industry-leading operational capabilities, enabling us to effectively control our costs and enhance our operational efficiency and profitability. Our operational capabilities benefit from our huge economy of scale. Leveraging our scale, we are able to secure favorable terms from suppliers, improve operational and advertising efficiency, and invest more resources in research and infrastructure, while achieving efficient intragroup resource sharing and improving overall operational efficiency. During the Track Record Period, we experienced substantial growth while our administrative, selling and marketing expenses as a percentage of our total revenues remained largely stable, and even dropped slightly from 2019 to 2020.

We have a highly scalable business model that not only enables rapid geographical expansion, but promotes efficient enrichment of our service offerings and service modes as well. In terms of clinic construction and upgrade, thanks to our efficient organizational capabilities and the support from our headquarters for construction, equipment procurement, and talent recruitment, it generally takes us no more than eight months to complete the opening of a new clinic of around 2,500 sq.m. In addition, our clinics' average initial breakeven period is three months and average cash payback period is 14 months, lower than the average level of China's private medical institutions, according to Frost & Sullivan. In terms of the expansion of our medical service offerings and service modes, backed by a highly

experienced and capable professional medical staff, we are able to diversify our service offerings, to adapt to the ever-evolving market conditions and patient needs without significant cost increases. For example, on top of traditional hair transplant, we have added several other hair transplant procedures, such as hairline lowering, eyebrow transplant, and sideburn transplant, with which we have effectively captured a larger group of consumers, particularly female consumers. In addition, leveraging our uniquely large and experienced medical staff, we developed a multilevel service system to meet the diverse medical needs of patients with different purchasing powers. Specifically, we offer hair transplant services at three levels of physician experience and skills, including (1) basic-level service for patients undergoing our standard hair transplant procedures; (2) premium-level service for patients undergoing the upgraded and customized hair transplant procedures performed by our deans, chief or deputy chief physicians; and (3) top-of-the-line "Yongxiang (雍享)" service for patients undergoing the personalized hair transplant procedures performed by industry-renowned hair transplant experts. During the Track Record Period, patient spending on "Yongxiang" service increased year by year, demonstrating our success in developing a high-end clientele.

Furthermore, we had strong medical service capabilities. Through highly standardized service procedure, we ensure that our patients can receive high-quality medical service in any of the clinics in our network. We are convicted that outstanding hair transplant depends on professional physicians. We have assembled a sizable staff of medical professionals through highly selective recruitment, and uniform and comprehensive on-the-job training. In addition, we put in place a customer service system, which provides 24-hour consultation services to patients. For ever-greater patient satisfaction with our medical services, we have been constantly developing our medical technology. As of the Latest Practicable Date, we held eight patents for medical technology inventions, which have been applied to further improve surgical safety and efficacy. Furthermore, to improve the patients' clinical experience and satisfaction, we offer innovative medical technology services, such as hair transplant without shaving, pain-less surgery, and intraoperative comfort care. We continue to research and develop the field of medical hair care services. For we collaborate with Sun Yat-sen University to research, and have achieved preliminary results in, solutions for allogeneic hair follicle transplant rejection, the development of novel small molecule drugs for preventing anxiety-induced alopecia, multifunctional hair transplant surgical bed, and mild foam shampoo.

**One-Stop-Shop Hair-Related Healthcare Service System Rooted in Tenacious Innovation in Product and Service Offerings**

By persistent trial and innovation, we have successfully built a one-stop shop system for hair-related healthcare service that centers on the diagnosis of medical hair conditions, and integrates various treatments, including surgeries, medical devices, and medications. Starting with testing, we continuously build on our ability to diagnose various hair-related conditions, and have developed our own hair detector which accurately measures hair length and diameter, analyzes severity of hair loss, and assists physicians in diagnosis and treatment planning. We also invite renowned physicians from Class IIIA hospitals to train and visit our clinics regularly, to the extent permitted by laws and regulations. Our industry-leading capabilities of testing, diagnosis, and treatment of hair-related conditions give us a unique advantage: For each patient visiting our clinics, we are able to provide a comprehensive diagnosis report, detailing the cause of hair loss and the nature and type of hair conditions. We then offer, based on scalp and hair follicle status analysis, a professional and holistic one-stop-shop treatment solution, which may include hair transplant surgeries, medical hair care services, and wigs.

We are constantly pushing the boundaries of our business, and creating, delivering, and capturing value in the medical hair care service sector. In December 2017, we acquired the mainland China business

of *Svenson*. Thereafter, leveraging our strong medical service capabilities and *Svenson*'s extensive experience in offering hair restoration products and services, we opened a *Svenson Medical Hair Care Center* (史雲遜醫學健髮中心) in each hair transplant clinic in mainland China under a "shop-in-shop" model to provide medical hair care services. Medical hair care service is able to address the substantial unmet demands of patients for non-surgical, effective and affordable medical solutions on various scalp and hair problems, including but not limited to hair loss, soft hair, itching scalp and oily scalp. It is also able to satisfy treatment needs of patients at various hair loss stages and attend to both female and male patients of different ages. Further, patients receiving medical hair care services generally need to undergo treatments several times for an extended period to achieve optimal results. According to Frost & Sullivan, we are a first mover in the industry and were the largest market participant in China in 2020 by revenue from medical hair care services. The medical hair care service market in China is still in its infancy, valued at RMB5.0 billion in 2020, but since medical hair care services are expected to address the diversified needs of a larger size of potential patient pool, the market is expected to grow significantly to RMB62.5 billion in 2030 at a CAGR of 28.7%. In view of our advantages accumulated by specializing in China's hair transplant industry, we are confident that our extensive experience and industry know-how will propel our rapid penetration into the medical hair care service market and help realize the great growth potential of the market.

Our one-stop-shop hair-related healthcare system has enhanced our capabilities to meet the needs of different patients and made possible our stable growth during the Track Record Period. We started to generate revenue from our medical hair care services in 2019. Alongside the rapid growth of our hair transplant business, revenue from our medical hair care services increased significantly from RMB15.06 million in 2019 to RMB213.21 million in 2020. For the six months ended June 30, 2021, our revenue from medical hair care services amounted to RMB254.2 million, higher than the amount for the entire year in 2020. The repurchase rate of our medical hair care services was 15.6% in 2019 and increased to 28.9% in 2020. Though affected by the outbreak of COVID-19 in 2020, our total revenue increased nonetheless by 33.8% from 2019 to 2020. According to Frost & Sullivan, the average revenue of China's medical hair transplant businesses decreased by approximately 15% over the same period.

**Industry-Leading Technology**

We adopt industry-leading technology to enhance patient experience, enlarge our patient base, increase our operating efficiency and reduce costs, which is reflected in the following aspects:

- *Data Usage and Analyses*. We have set up an advanced business management system to track, record, and present operational data from our clinics nationwide. According to Frost & Sullivan, we are the first and as of the Latest Practicable Date, the only hair transplant clinic chain in China that realized the real-time presentation and analysis of various key operating metrics, such as the number of patients, the volume of hair transplant surgery, and the volume of follicular transplant. On the one hand, real-time data presentation enhances the transparency of our healthcare services, thereby improving our patients' treatment experience. On the other hand, by analyzing the data collected from operations, we are able to quickly and accurately identify and meet our patients' demands, effectively manage customer profiles, and develop models for predicting patient needs, making prognoses, advising diagnostic and therapeutic procedures, and implementing targeted advertising.

- *Intelligent Services.* We have developed and launched a set of intelligent consultation service software for graphic, telephonic, and video consultation services. That software

helps conduct initial screening and triage of patients online, uploads medical records in real time, facilitates perioperative patient management, and provides patients with convenient online consultation and postoperative services. Our service software automatically provides customized services to different types of patients in need of different treatments, *e.g.*, automatically attending to patients at various preoperative stages, and anticipating and satisfying patients' needs at various postoperative stages. Using artificial intelligence algorithms for customer service, we provide automated and intelligent real-time responses to customers' online inquiries. In addition, we are actively launching smart devices, such as follicular detectors, to save our labor costs. Our follicular detector embodies advanced technologies, such as intelligent image recognition and big data algorithms, which can provide patients with accurate medical test reports, including scalp environment analysis, sebum test analysis, hair follicle health analysis, hair density analysis, hair diameter analysis, diagnostic results, and medical advice, thus greatly enhancing patient consultation experience and the professional quality of service.

- *Online Services.* We are actively promoting online medical services, and have put together a dedicated online medical staff. Our online medical service system allows real-time upload of medical documents, such as the patient's medical records, thereby bringing convenient and professional online consultation and postoperative review services to patients. We use Internet platforms to provide online medical services. For example, we developed a hair management mini-program on WeChat to give patients convenient access to introductions of hair transplant procedures, credential of our physicians, pricing information, recent discount policies, and so on. As of the Latest Practicable Date, our WeChat service platform, Hair Manager, had over 811,000 registered users.

We believe our technology-oriented operation represents a unique advantage that differentiates us from other hair-related healthcare service providers, enables continuous improvements of patient experience, attracts more patients, and reinforces patient loyalty, which will further stimulate brand development and solidify our market dominance.

**Visionary and Seasoned Management and Strong Shareholder Support**

Our success is attributable to our visionary and dedicated management with extensive industry experience. Our founder and chief executive officer, Mr. ZHANG, started hair transplant business in 2005, and has been specializing in the hair transplant industry for 16 years, accumulating a wealth of first-hand experience in the industry. He understands the needs of Chinese patients, and has a profound and unique insight into the pain points and development potential of China's hair-related healthcare service industry. Mr. Zhang is a pioneer and leader in the hair transplant industry, and is committed to providing the most advanced hair transplant solutions for Chinese hair-loss patients. He has introduced advanced technology from abroad, and continues to promote technological innovation and the orderly development of the entire industry. Mr. Zhang led the formulation of our major development strategies in the past, such as clinic expansion strategies, talent recruitment plans in the hair field, and the development of our one-stop-shop service system. Leveraging his foresight of the industry, innovative operational philosophy, and excellent management skills, Mr. Zhang has led us to stay ahead in China's hair-related healthcare service industry.

Our senior management has extensive industry experience and complimentary backgrounds and expertise. Our assistant president and chief operating officer, Mr. XU Yang, has over 18 years of experience in the operations and management for medical service provider chains and Internet

companies. He worked for several well-known Internet technology companies, including Baidu Online Network Technology (Beijing) Co., Ltd. (百度在線網絡技術(北京)有限公司), and also worked for Beijing Evercare Medical Technology Group Co., Ltd. (北京伊美爾醫療科技集團股份公司), a renowned plastic surgery chain. In particular, Mr. Xu has rich experience introducing new technology to businesses. Our director of finance, Ms. HAN Zhimei, has over 23 years of experience in corporate financial management and the finance industry, especially in the financial management of medical clinic chains, such as Ciming Health Checkup Management Group Co., Ltd. (慈銘健康體檢管理集團有限公司). Ms. Han has been overseeing the continuously improvements of the group's financial and internal control systems throughout the chained network. Our president of medical services, Mr. LI Xiaolong, has over 10 years of management experience in the medical services sector. He held senior management positions in the People's Liberation Army No. 309 Hospital (解放軍第309醫院), the Health Bureau of the People's Liberation Army General Staff Department (中國人民解放軍總參謀部衛生局). He has a deep understanding of cutting-edge technologies and patient needs, and has led the development of our core diagnostic and therapeutic capabilities. Our director of sales and marketing, Mr. HUANG Donghong, has nearly ten years of experience in marketing, and has been leading our ongoing brand development. For their biographical details, see "Directors and Senior Management" in this document.

In addition to our management team, we also benefit tremendously from the strong support of our Shareholders, who have been working closely with our committed management team to develop and implement our strategies. Our Controlling Shareholder CITIC PE has extensive experience in managing and growing companies in the consumer medical industry, and provided us with invaluable guidance for our value creation strategy and sustainable growth. Leveraging CITIC PE's strong bargaining power backed by the extensive portfolios where it has controlling interest, we are able to obtain more favorable terms when negotiating with our suppliers and other business partners. We also benefit from CITIC PE's broad network of industry experts, talents and enterprises which bring about synergistic business opportunities while maintaining full independence. For example, CITIC PE introduced acquisition targets such as the mainland China business of *Svenson* and the greater China business of *Nu/Hart Hair* to expedite our business expansion. See "History, Development and Corporate Structure" in this document for more details.

## OUR STRATEGIES

Our mission is to become a world-leading one-stop shop for hair-related healthcare services. We plan to implement the following strategies to achieve that goal:

### Continue our Network Expansion and Upgrade, and Strengthen Talent Development and Recruitment

We will further expand our geographical coverage by penetrating into lower-tier cities. We will continue to follow and improve the standard operating procedure, increase our penetration rate in cities where we have established operational presence, and further expand to lower-tier cities in China. We aim to reach nearly one hundred hair transplant clinics across the country within the next few years. We will push for the transformation of our hair transplant clinics to comprehensive medical hair care service hospitals. We have started to transform our well-established clinics in tier-one cities to comprehensive medical hair care service hospitals, and plan to upgrade, in due course, our clinics in more provincial capitals to comprehensive hair hospitals, thereby getting us closer to a leading comprehensive hair diagnostic and therapeutic service system as planned. We plan to apply a portion of the net [**REDACTED**] from the [**REDACTED**] for such purposes. See "Future Plans and Use of [**REDACTED**]" in this document for details.

We believe professional talents are at the core of the hair-related healthcare service industry, and we plan to focus on establishing a sound talent recruitment, retention and training program to support our continuous expansion. We will continue to bring in physicians who are experts in hair disease diagnosis and treatment from public hospitals to conduct consultation (坐診) and train our staff. We plan to attract more professional talents by collaborating with universities and Class IIIA hospitals. We will attract high-caliber talents by offering competitive pay and career development policies, thus enhancing our operations and management capabilities. In addition, we will further optimize internal staff training by, for instance, starting a dedicated department staffed with specialists, in order to provide a continuous supply of professional talents to the company.

**Promote Further Innovations in Product and Service Offerings to Expand the One-Stop-Shop System for Hair-Related Healthcare Service**

We will continue to promote product and service innovations with a focus on enhancing patient experience and comfort. We will keep up with the ever-evolving clinical needs of patients and continue to upgrade our treatment solutions. We plan to further optimize our hair transplant procedures such as widow's peak (美人尖) transplant, hairline lowering, eyebrow transplant, to address the personalized and aesthetic treatment demands of our patients, particularly female patients.

We will continue the research and development of surgical instruments and medical hair care devices through both our own research and development activities and joint efforts with our cooperative partners. For example, to enhance patient comfort as well as the safety and transparency of our treatment, we are developing various instruments and devices such as treatment couch, intelligent shadowless lamp and follicle segregation table. We are also dedicated to providing personal and customized postoperative services and products to our patients. Based on our observation and analysis of the demands of patients at postoperative stages, we are developing several ancillary products such as wigs and functional pillows that are specially designed to enhance patient experience at the recovery stage. We plan to apply a portion of the net [**REDACTED**] from the [**REDACTED**] for such purposes. See "Future Plans and Use of [**REDACTED**]" in this document for details.

In addition, we strive for new heights in technology research and development relating to hair disease diagnosis and treatment. We plan to cooperate with more universities and Class IIIA hospitals to research on cutting-edge technologies, such as our collaboration with Sun Yat-sen University in researching follicular regeneration technology. We believe such academic development and cooperation will lead to the next breakthrough in the hair-related healthcare industry and our investment in these cutting-edge research areas will pay off with tremendous growth potential.

**Continue to Adopt New Technologies**

We will carry on our push for more data usage and analyses, intelligent services and online services, optimize patient experience, enhance operational efficiency, and reduce management costs without compromising the quality of medical service. On intelligent services, we will continue to invest in technology infrastructure and software capabilities to upgrade our service system. In particular, we intend to develop a flexible and scalable information technology system to streamline our one-stop services, covering consultation and examination, diagnosis and treatment, and post-treatment services. We plan to introduce or develop in-house high-tech intelligent equipment or instruments, such as automated follicle detectors and robotic manipulators for follicle transplant, to improve the accuracy of hair diagnosis and hair transplant procedures, while reducing the reliance on manual labor.

On data usage and analysis, we will improve the collection and real-time presentation of more medical data at each clinic or hospital across the country, for greater transparency of our diagnosis and treatment services. We will also put patient service data (after duly desensitization, if needed) to use to guide and inform the development of our hair disease diagnosis and treatment system.

On online services, we will continue to build online hospital services, enhance our online diagnostic and treatment capabilities, enrich our online service offerings, and present and apply the data collected online to patients in real time in a more systematic and visualized way, so as to further enhance patients' consultation experience. We will also rely on the Internet to improve management. For example, we will further the standardization of services and supervise local branches from the headquarters via real-time videos and unified online systems. We plan to apply a portion of the net [**REDACTED**] from the [**REDACTED**] for the aforesaid adoption of new technologies. See "Future Plans and Use of [**REDACTED**]" in this document for details. As advised by our PRC Legal Adviser, since the online services we provide to our patients and other online users do not fall within the scope of value-added telecommunication services as stipulated in the applicable PRC laws and regulations, currently we are not subject to any license requirements and/or foreign ownership restrictions for providing such online services. For the details of the licensing and regulatory requirements of the online services we plan to offer in the future, see "— Our Information Technology — Online Services" in this section.

**Integrate Industry Resources and Promote Multi-Brand Strategy**

We have adopted and will further promote a multi-brand strategy to cater for the different needs of patients. In addition to our established brand *Yonghe Hair Transplant*, we will further promote our services under marks like *Svenson Medical Hair Care*, so as to present a full-spectrum of service offerings to patients. We are also developing a new hair transplant brand targeting female patients. We believe our multi-brand development approach will strengthen our presence in the industry and create substantial synergies to support our future growth.

We plan to acquire independent local hair transplant clinics to expedite the concentrated multi-location expansion in key regions. We will focus on major economically developed regions in China with high population density, such as South China and East China, to accelerate our rise to the top in those regions. We will consider a variety of factors when selecting acquisition targets, such as the target's diagnostic and treatment capabilities, local brand goodwill, and the medical staff. We plan to apply a portion of the net [**REDACTED**] from the [**REDACTED**] for such acquisitions. See "Future Plans and Use of [**REDACTED**]" in this document for details. We currently have no specific target in negotiations. We plan also to open experience demonstration centers (示範體驗中心) and improve our experiential services nationwide to raise brand awareness.

We will effectively integrate our achievements and deepen our cooperation with companies in the supply chain, and innovate the mode of cooperation with businesses upstream and downstream in the supply chain, *e.g.*, strengthening cooperation with medical device and pharmaceutical companies by signing business cooperation framework agreements and equity investment, so as to achieve greater synergy and raise our brand awareness. We plan to fund such cooperation and investment with our internal capital resources. We currently have no material collaboration or investment proposal in negotiations.

## OUR BUSINESS

We are the leading medical group in China specialized in providing hair-related healthcare services in terms of total revenue for 2020. During the Track Record Period, we focused on providing hair transplant services while constantly expanding the boundaries of our business. Since 2019, we started to provide medical hair care services by establishing a *Svenson Medical Hair Care Centers* (史雲遜醫學健髮中心) in each of our hair transplant clinics in mainland China under a "shop-in-shop" model. Our *Svenson Medical Hair Care Centers* provide patients with non-surgical, effective and affordable medical solutions on various scalp and hair problems, including but not limited to hair loss, soft hair, itching scalp and oily scalp. In addition to hair transplant and medical hair care, we also generate a small portion of revenue from providing routine hair restoration products and services through non-medical institutions. The following table sets forth the components of our revenue by business line for the period indicated.

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Hair transplant services | 918,014 | 98.3 | 1,197,775 | 97.8 | 1,412,744 | 86.2 | 567,225 | 94.3 | 789,522 | 75.0 |
| Medical hair care services | – | – | 15,060 | 1.2 | 213,214 | 13.0 | 30,687 | 5.1 | 254,189 | 24.1 |
| Others[(1)] | 16,312 | 1.7 | 11,642 | 1.0 | 12,339 | 0.8 | 3,651 | 0.6 | 9,689 | 0.9 |
| **Total** | **934,326** | **100.0** | **1,224,477** | **100.0** | **1,638,297** | **100.0** | **601,563** | **100.0** | **1,053,400** | **100.0** |

*Notes:*

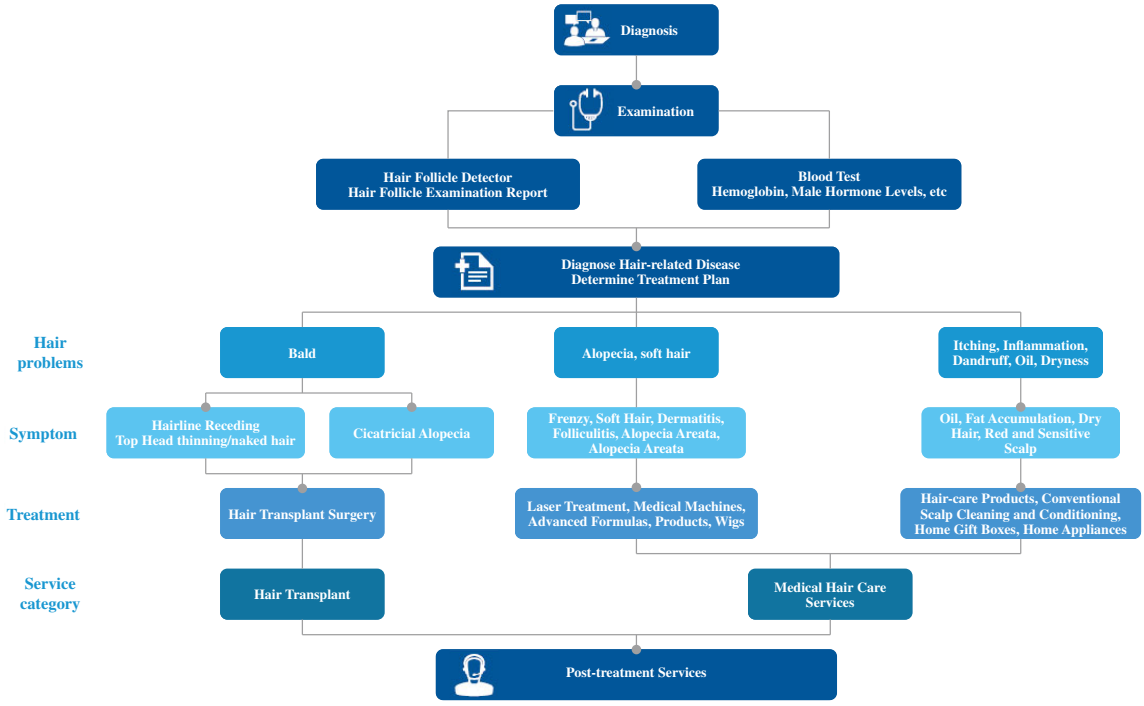
(1) Others mainly include revenue from *Svenson Hair Care Centers* (史雲遜健髮中心) we acquired in December 2017. These *Svenson Hair Care Centers* are not medical institutions and primarily engaged in providing routine hair restoration products (such as anti-hair loss shampoo and head massager) and services (such as scalp cleaning and massaging) without using medicines or medical devices.

Ancillary to our provision of medical services, we from time to time sell drugs (including prescription drugs and over-the-counter drugs) to our patients. The prescription drugs primarily include drugs for the treatment of hair loss such as Finasteride Tablets (非那雄胺片) and anesthetics and anti-infection drugs commonly used in hair transplant surgeries such as Lidocaine Hydrochloride (鹽酸利多卡因) and Gentamicin Injections (慶大黴素注射液). The over-the-counter drugs primarily include drugs commonly used to prevent post-operative infections and relieve pains such as Bactroban (百多邦) and Ibuprofen (布洛芬). The fees for these drugs are included in, and typically account for a very small portion, our relevant (i.e., hair transplant or medical hair care) service fees. All of the drugs we provide to our patients are approved for marketing by the National Medical Products Administration of the PRC or its local counterparts. We only provide drugs to our hair transplant or medical hair care patients when providing our medical services, and do not sell any drugs to the general public. The drugs will only be provided to our patients if approved by our licensed physicians, each of whom holds a Practicing Certificate of Physician (執業醫師證). As advised by our PRC Legal Adviser, physicians holding the Practicing Certificates of Physician are qualified to prescribe drugs at their practicing medical institutions, and our clinics do not need special permits or licenses such as Pharmaceutical Trade Licenses (藥品經營許可證) other than the Medical Institution Practicing Licenses already held by our clinics, in order to sell drugs to our patients when providing medical services.

Benefiting from the organic synergies between our hair transplant services and medical hair care services, our patient base was rapidly growing during the Track Record Period. Our total number of patients receiving our treatments increased by 41.7% from 35,177 in 2018 to 49,851 in 2019, and further increased by 82.7% to 91,069 in 2020. In the six months ended June 30, 2021, the total number of patients receiving our treatments reached 68,112.

## Our Medical Services

We offer one-stop hair-related healthcare services to patients visiting our clinics. Our typical service process consists of consultation and examination, diagnosis and treatment planning, treatment and post-treatment services. The chart below provides an overview of the typical process of our one-stop hair-related healthcare services.




### *Consultation and Examination*

After a patient visits us for the first time and completes registration, we perform a professional hair and scalp microscopy with our self-developed hair follicle detector to examine the patient's hair and scalp conditions. To obtain a more comprehensive, reliable and accurate diagnosis and to understand the possible causes of hair loss, we will further conduct Dihydrotestosterone test for male patients to assess the risk of androgenic baldness, and hair loss hormone test for female patients to assess their Adrenal Androgens and Serum Ferritin.

***Diagnosis and Treatment Planning***

During the diagnosis and treatment planning stage, our physicians form a professional opinion of the patient's examination report. They explain in detail to patients the possible causes of hair loss and analyze their scalp condition, hair condition and severity of hair loss. Taking into consideration the demand of patients, appropriate treatment method is then decided by the physician for patients. We recommend medical hair care treatment for patients with early stages of hair problems, and hair transplant treatment for patients with thinning hair or bare follicular closure.

***Treatment***

*Hair Transplant*

Hair transplant is a surgical procedure in which hair follicles are extracted from the back occipital area with high quality hair follicles and transplanted to bare and thinning hair areas. In China, hair transplant is classified as Grade I surgery under the *Classification Catalog of Aesthetic Medical Item* (《醫療美容項目分級管理目錄》), indicating that hair transplant is normally safe and carries lower risks than other types of surgeries.

We are the largest hair transplant service provider in China. Backed by a team of highly experienced and capable medical professionals, we are able to offer a broad range of hair transplant services to meet the diverse needs of our patients. In addition to traditional hair transplant services, our services include aesthetic hair transplant such as hairline lowering, eyebrow transplant, and sideburn transplant, as well as bespoke service for female clients suited to their aesthetic aspirations provided by a dedicated surgical team. The surgical procedures and underlying hair transplant techniques involved in different types of hair transplant are generally the same. With the growing awareness around physical appearance in society, our diversified service offerings will effectively help us capture a larger group of consumers.

We are dedicated to providing professional and high-quality hair transplant services to patients. We have adopted a comprehensive set of standard operational procedures aiming to consistently deliver safe, high quality hair transplant services to our patients. For example, in addition to requiring each of our hair transplant surgeries to be performed by licensed physicians and supervised by physicians holding the Aesthetic Medical Attending Physician qualification, we also require all key steps of the hair transplant surgeries (such as anesthesia, follicular extraction, and incision of bald areas) to be performed by physicians personally. Moreover, the performance of hair transplant surgeries by our newly recruited physicians must be under one-on-one supervision of senior physicians for at least one month. When evaluating the performance of our physicians, "productivity" has never been the most important key performance indicator (KPI) considered by our management team; instead, our management team focuses more on KPIs such as procedure success rate, patient feedback, and time devoted to training and guiding junior physicians. In fact, as opposed to driving our physicians to perform as much as procedures as possible, we would proactively manage the workload of our physicians, to ensure that our physicians are not over-burned, and can devote sufficient time and pay close attention to each of their patients. We believe that such efforts will ultimately translate into patient loyalty and accrue goodwill to our brand, and benefit our longterm growth. For more details, see " — Quality Assurance" and " — Our Professional Team" in this section.

We have also strategically established a multilevel service system to address the diverse needs of our patients. As of the Latest Practicable Data, we offered three levels of hair transplant services distinguished by the experience and skills of our physicians, including (1) basic-level service for patients undergoing our standard hair transplant procedures; (2) premium-level service for patients undergoing the upgraded and customized hair transplant procedures performed by our deans, chief or deputy chief physicians; and (3) top-of-the-line "Yongxiang (雍享)" service for patients undergoing the personalized hair transplant procedures performed by industry-renowned hair transplant experts. We typically charge a patient RMB20,000 to RMB30,000 for receiving basic-level services, RMB30,000 to RMB50,000 for receiving premium-level services, and over RMB100,000 for receiving "Yongxiang" services. We determine the prices for different service levels by taking into account a number of factors such as patient demand, treatment complexity, market conditions, the pricing policies of our competitors and operating costs. For details, see "Pricing and Payment" in this section.

Our number of hair transplant patients grew rapidly during the Track Record Period as a result of our expanded service offerings and improved service quality. The table below illustrates the key operating data of our hair transplant services.

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| **Number of patients receiving hair transplant services** | 35,177 | 43,087 | 50,694 | 29,480 |
| **Average spending per patient** *(RMB)* | 26,097 | 27,799 | 27,868 | 26,782 |
| **Three Levels of Services** | | | | |
| Number of patients that accepted basic-level services | 35,037 | 42,235 | 48,575 | 27,254 |
| Number of patients that accepted premium-level services | – | 512 | 1,827 | 2,088 |
| Number of patients that accepted "Yongxiang" services | 140 | 340 | 292 | 138 |

*Medical Hair Care*

Medical hair care integrates various non-surgical treatment methods, such as medical devices and medications to provide hair transplant patients with preoperative and postoperative medical services, and to satisfy the various needs of patients who are not in need of, or unfit for, hair transplant. Unlike the hair transplant market, the medical hair care service market is characterized primarily by repeat sales to the same patients. According to Frost & Sullivan, the medical hair care service market in China is still at its infancy with great growth potential.

We are one of the first movers in China's medical hair care industry and were the largest market participant in China in 2020 by revenue from medical hair care services. Since 2019, we have provided medical hair care treatments through *Svenson Medical Hair Care Centers* (史雲遜醫學健髮中心) in our hair transplant clinics under a "shop-in-shop" model. As of the Latest Practicable Date, we had established a *Svenson Medical Hair Care Center* in each of our 52 hair transplant clinics in mainland China.

At our *Svenson Medical Hair Care Centers*, our registered physicians will provide patients with professional advice and holistic treatments, combining procedures such as lasers and light therapy that use medical devices, and pharmaceuticals representing the leading hair science. We may also give nutritional advice, and recommend lifestyle changes to improve the health of the hair and scalp.

The table below illustrates the key operating data of our medical hair care services.

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| **Number of patients receiving medical hair care services** | – | 8,564 | 59,122 | 52,633 |
| – Number of patients purchasing prepaid packages | – | 2,996 | 41,830 | 42,827 |
| – Number of patients not fully utilizing their prepaid packages | – | 1,332 | 17,296 | 33,879 |
| Average spending per medical hair care patients *(RMB)* | – | 1,759 | 3,606 | 4,829 |
| Repurchase Rate[(1)] *(%)* | – | 15.6 | 28.9 | 22.2 |

*Notes:*

(1) Calculated by the number of patients purchasing our medical hair care services more than once, divided by the total number of patients receiving our medical hair care services during the period.

Many of our medical hair care therapies are delivered in the form of treatment courses, where patients will receive several treatments in a period to obtain optimal treatment results. We provide prepaid packages for these patients. Our prepaid packages normally do not bear an expiry date while the majority of our patients will fully utilize the prepaid packages within two years. Whenever our patients with prepaid packages request for refund and regardless of their reasons, we generally refund them in full if their prepaid packages are unutilized, and if the packages are partly utilized, we will refund them the remaining amounts corresponding to the unutilized services. Despite of our relaxed refund policy, less than 0.5% of the patients who had purchased prepaid packages requested for refund during the Track Record Period. Our medical hair care service staff are compensated by fixed salaries and performance-based bonuses based on their ability to meet or exceed the applicable key performance indices set by the management such as attendance rate and patient feedbacks, which may vary from time to time according to business needs. We make commission payments to our medical professionals based on their length of service and total number of patients served during a period, and to our service managers based on prepaid packages sold and repurchases of our patients. We do not make any direct commission payments to our medical professionals for selling prepaid packages. We believe these policies will properly incentivize our staff, and duly protect the interests of our customers and guarantee the quality of our services at the same time. We designed our prepaid packages with references to the Guidelines for Consumer Prepaid Service Transaction Contracts (北京市消費類預付費服務交易合同行為指引) promulgated by the Beijing AMR, as well as other applicable best practice guidelines issued by the relevant consumer protection bodies. We have also adopted several internal policies to avoid unscrupulous sales practices. See "— Environmental Sustainability and Social Responsibility — Social Responsibility" for more details.

We are dedicated to establishing long-term relationships with our medical hair care customers. In 2019, the first year we commenced our medical hair care businesses, the repurchase rate of our medical hair care services reached 15.6%. As a result of our efforts in diversifying service offerings and enhancing patient experience, such repurchase rate increased significantly to 28.9% in 2020. Our provision of prepaid packages had, to some extent, affected such repurchase rate during the Track Record Period. As illustrated in the table above, a substantial portion of our medical hair care customers who had purchased the prepaid packages did not fully utilize the services thereunder during the relevant periods. The number of patients purchasing our prepaid packages increased significantly from 2,996 in 2019 to 41,830 in 2020, and reached 42,827 in the first half of 2021, indicating an increasing customer recognition on our services. We expect to strengthen customer loyalty and further improve the repurchase rate of our medical hair care services by continuously improving our service quality.

***Post-Treatment Services***

After hair transplant surgery, we have a professional post-treatment service team to provide post-surgery consultation and care services to patients. For example, within seven days after surgery, we offer gauze removal, hair washing and blood scab cleaning; within eight days to three months, we provide photodynamic and post-surgery restoration care; within four months to twelve months, we provide recovery examination and other services. In addition to in-hospital review, we also offer remote review services to patients, who can complete post-surgery review, post-surgery recovery, post-surgery medication and other relevant guidance without leaving home.

## OUR CLINIC NETWORK

We own and operate the largest and most widely distributed hair transplant clinic chain in China, according to Frost & Sullivan. As of the Latest Practicable Date, we had 53 hair transplant clinics nationwide, 52 of which were self-operated and one was acquired from third parties. We experienced rapid expansion in recent years. The following table sets out the number of our clinics in operation during the Track Record Period:

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Number of clinics in operation at the beginning of the period | 22 | 30 | 37 | 48 |
| Number of new clinics opened during the period | 8 | 7 | 11 | 3 |
| Number of clinics acquired during the period | – | – | – | 1 |
| Number of clinics in operation at the end of the period | 30 | 37 | 48 | 52 |

During the Track Record Period and up to the Latest Practicable Date, we upgraded some of our clinics, and in a number of instances, such upgrades were completed by relocating old clinics to new locations in the same cities. We made such relocation and upgrades in order to enhance patient experience, and/or to rectify the non-compliances concerning the buildings where the old clinics were located in. Procedurally, such relocations involved the cessation of operation and closure of the old clinics, and the opening of new clinics, but since (i) the old clinics and the new clinics were located in the same cities, (ii) the old clinics and the new clinics were operated and managed by the same teams, and (iii) our business operations in the relevant cities had never experienced any material disruption or cessation as a result of such relocations, we regarded the old clinics and the new clinics as the same clinics. In order to rectify certain non-compliance incidents, we relocated, or plan to relocate four of our clinics in Shanghai, Xi'an, Urumqi and Changsha, respectively. See "— Licenses, Permits, Approvals and Compliance" for more information.

**Geographic Locations**

As of the Latest Practicable Date, our 53 hair transplant clinics covered 52 cities in 26 provinces, autonomous regions and centrally-administered municipalities across mainland China and in Hong Kong. We typically enter a province by setting up our clinics in the provincial capital first. During the Track Record Period, we primarily focused on establishing our market presence in regions with huge hair transplant demands and high *per capita* income. We are striving to achieve regional concentration strategy by opening clinics in more cities in such regions. The following table sets forth the breakdown of the number of our clinics in operation by geographical regions during the Track Record Period:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Eastern China[(1)] | 10 | 15 | 21 | 23 |
| Southern China [(2)] | 4 | 5 | 10 | 10 |
| Northern China[(3)] | 4 | 4 | 4 | 4 |
| Southwestern China[(4)] | 4 | 4 | 4 | 4 |
| Central China [(5)] | 3 | 3 | 3 | 4 |
| Northwestern China[(6)] | 2 | 3 | 3 | 3 |
| Northeastern China[(7)] | 3 | 3 | 3 | 3 |
| Hong Kong[(8)] | – | – | – | 1 |
| **Total** | **30** | **37** | **48** | **52** |

*Notes:*

(1) Including Shanghai, Zhejiang, Jiangsu, Fujian, Jiangxi, An'hui and Shandong.
(2) Including Guangdong and Guangxi.
(3) Including Beijing, Tianjin, Hebei and Shanxi.
(4) Including Sichuan, Guizhou, Yunnan and Chongqing.
(5) Including Henan, Hubei and Hunan.
(6) Including Shaanxi, Gansu and Xinjiang.
(7) Including Heilongjiang and Liaoning.
(8) Including one acquired clinic, Nu/Hart Hair, in Hong Kong.

Following our inception, we firstly established our presence in tier-one cities with large populations and high *per capita* income, where we grew rapidly and became a top market player. As of the Latest Practicable Date, we had extended our footprint in four tier-one cities, 15 new tier-one cities, 25 tier-two cities and seven lower-tier cities and in Hong Kong. As of the Latest Practicable Date, we had only one hair transplant clinic in one city except Hangzhou, where we had two clinics. We are also speeding up our pace to expand to China's tier-two and lower-tier cities. The following table sets forth the breakdown of the number of our clinics in operation by city tiers during the Track Record Period:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Tier-One Cities | 4 | 4 | 4 | 4 |
| New Tier-One Cities | 13 | 13 | 16 | 16 |
| Tier-Two Cities | 12 | 18 | 24 | 25 |
| Lower-Tier Cities | 1 | 2 | 4 | 6 |
| Hong Kong | – | – | – | 1 |
| **Total** | **30** | **37** | **48** | **52** |

The following maps set forth the relevant information of our clinic network as of the Latest Practicable Date.

## Development Stages

Our clinics can be categorized into three groups based on their respective opening date, including mature-stage clinics (i.e., clinics that have been established for more than three years), developing-stage clinics (i.e., clinics that have been established for one to three years), and newly-established clinics (i.e., clinics that have been established for less than one year). For acquired clinics, we regard the date when their financial position and results of operations are consolidated into our Group as their respective opening date. During the Track Record Period, we only acquired one clinic in May 2021. As of the Latest Practicable Date, we had 29 mature-stage clinics, 18 developing-stage clinics and six newly-established clinics (including the acquired clinic). The following table sets forth the breakdown of the number and revenue of our clinics by development stage for the periods indicated:

| | Year Ended December 31, | | | | | | As of/for the Six Months Ended June 30, 2021 | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | | |
| | | *RMB'000* | | *RMB'000* | | *RMB'000* | | *RMB'000* |
| Mature-stage clinics | 10 | 555,038 | 16 | 831,989 | 22 | 1,196,970 | 24 | 722,954 |
| Developing-stage clinics | 12 | 300,766 | 14 | 338,917 | 15 | 328,511 | 17 | 234,541 |
| Newly-established clinics | 8 | 62,210 | 7 | 41,929 | 11 | 100,477 | 11 | 86,216 |
| – Acquired clinic | – | – | – | – | – | – | 1 | 754 |
| **Total** | **30** | **918,014** | **37** | **1,212,835** | **48** | **1,625,958** | **52** | **1,043,711** |

## Performance of Our Clinics

The following table sets forth the details of our same store sales and year-over-year same store sales growth of our clinics by development stage during the Track Record Period, which are two important metrics that our management tracks in evaluating our clinic network's performance. We define our same stores to be those clinics that were in operation throughout the periods under comparison. For the avoidance of doubt, if a clinic was a newly-established clinic in 2018 but was a developing-stage clinic in 2019, it is counted as a developing-stage clinic for purposes of the following tables; similarly, if a clinic was a developing-stage clinic in 2018 but was a mature-stage clinic in 2019, it is counted as a mature-stage clinic for purposes of the following tables. Same store sales figures provide a meaningful period-to-period comparison of the performance of our existing clinics that have been operating for a year or more. Since we experienced rapid network expansion during the Track Record Period, both the opening of new clinics and the improved operation of our established clinics had contributed to our growth for the same periods. The comparison of same store sales over a period excludes revenue growth attributable to the increase in the number of clinics, and demonstrates our growth from improved operations at existing clinics. Further, by breaking down our established clinics into mature-stage clinics and developing-stage clinics, we are able to further asses the performance of our clinics at different stages.

We experienced substantial same store sales growth during the Track Record Period. Particularly, for our mature-stage clinics, we still maintained a same store sales growth rate over 18% during the Track Record Period. The table below sets forth the information related to our same store sales during the periods indicated:

| | For the year ended December 31, | | | | For the six months ended June 30, | |
|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2019** | **2020** | **2020** | **2021** |
| **Number of Same Stores** | | | | | | |
| Mature-stage clinics | 16 | | 22 | | 24 | |
| Developing-stage clinics | 6 | | 8 | | 10 | |
| Newly-established clinics | 0 | | 0 | | 0 | |
| **Total** | **22** | | **30** | | **34** | |
| **Same store sales** | | | | | | |
| *(in thousands of RMB)* | | | | | | |
| Mature-stage clinics | 701,423 | 831,989 | 1,013,635 | 1,196,970 | 486,452 | 722,954 |
| Developing-stage clinics | 154,381 | 181,646 | 157,271 | 208,654 | 79,581 | 140,659 |
| **Total** | **855,804** | **1,013,635** | **1,170,906** | **1,405,624** | **566,033** | **863,613** |

***Initial Breakeven Period and Cash Investment Payback Period***

The initial breakeven period represents the period from the opening of a clinic to the time when it records monthly net profit for the first time. The cash investment payback period for a clinic represents the time it takes for the accumulated operating cash flow attributable to us from the relevant clinic to recover the initial investment. The average initial breakeven period of all of our self-operated clinics in operation as of the Latest Practicable Date was approximately three months, and their average cash investment payback period was approximately 14 months.

### Service Capacity of our Clinics

We evaluate the service capacity of a clinic primarily based on the number of hair transplant surgeries can be performed therein. Service capacity and utilization rate affects our results of operations and, to some extent, indicates our growth potential. The table below sets forth the service capacity and utilization rate of our clinics by development stages for the periods indicated:

| | For the Year Ended December 31, | | | | | | For the Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Maximum Service Capacity[1] | Utilization Rate[2] | Maximum Service Capacity | Utilization Rate | Maximum Service Capacity | Utilization Rate | Maximum Service Capacity | Utilization Rate |
| | | *(%)* | | *(%)* | | *(%)* | | *(%)* |
| Mature-stage clinics | 26,096 | 80.9% | 44,332 | 66.3% | 65,280 | 56.2% | 36,452 | 55.6% |
| Developing-stage clinics | 21,500 | 53.4% | 31,248 | 38.4% | 30,256 | 36.0% | 17,324 | 38.5% |
| Newly-established clinics[3] | 7,140 | 36.1% | 8,548 | 20.0% | 12,666 | 24.5% | 12,142 | 20.8% |
| **Total** | **54,736** | **64.3%** | **84,128** | **51.2%** | **108,202** | **46.9%** | **65,918** | **44.7%** |

*Notes:*

(1) Represents the maximum number of surgeries can be performed theoretically in such clinics during a given period. Considering that a hair transplant surgery generally takes three to seven hours to complete, one surgery room can assume up to two hair transplant surgeries in theory every day. The maximum service capacity of our clinics is calculated as the average number of surgery rooms in use of the clinics multiplied by two (the daily maximum number of surgeries per room) and the number of working days in the relevant year or period.

(2) Represents the actual number of surgeries performed during the given period as a percentage of the maximum service capacity of such clinics in the relevant period.

(3) Excludes the clinic in Hong Kong acquired by us in May 2021 for the purpose of this table.

Our provision of medical hair care services is generally not limited by the service capacity disclosed above, while it might be affected by various other factors such as the service area of our clinics and the availability of medical devices and equipment. To improve service capacity and enhance patient experience, we selectively upgrade our clinics from time to time to cover larger service areas. See "— Expansion and Acquisitions" below for details of our plan to upgrade existing clinics.

### Expansion and Acquisitions

As part of our growth strategy, we intend to continue expanding our clinic network to strengthen our presence in our target markets. We plan to apply a portion of the net [**REDACTED**] from the [**REDACTED**] for such purposes. See "Future Plans and Use of [**REDACTED**]" in this document for details.

***Expansion***

Leveraging our successful track record and highly scalable business model, we intend to continuously establish new clinics across China. We currently plan to establish approximately 50 new hair transplant clinics primarily in China's tier-two and lower-tier cities. The following table sets forth the details of our plans for the establishment of new clinics in the next two years:

| Location | Current Status | Estimated GFA (sq.m.) | Expected Year of Opening |
|---|---|---|---|
| Jiangsu | Under renovation | 2,420 | 2021 |
| Fujian | Under renovation | 2,390 | 2022 |
| Guangdong | Under renovation | 2,089 | 2022 |
| Shandong | Under planning | 2,000 | 2021 |
| Guangdong | Under planning | 2,000 | 2022 |
| Guangxi | Under planning | 2,000 | 2022 |
| Guizhou | Under planning | 2,000 | 2022 |
| Inner Mongolia | Under planning | 2,000 | 2022 |
| Hebei | Under planning | 2,000 | 2022 |
| Hebei | Under planning | 2,000 | 2022 |
| Henan | Under planning | 2,000 | 2022 |
| Henan | Under planning | 2,000 | 2022 |
| Shandong | Under planning | 1,674 | 2022 |
| Shandong | Under planning | 2,000 | 2022 |
| Zhejiang | Under planning | 2,000 | 2022 |
| Zhejiang | Under planning | 2,000 | 2022 |

The opening of a new clinic generally involves a number of steps, primarily including:

- *strategic planning and market research.* At this stage our management will determine the cities where we plan to open new clinics based on the review of market data as well as the evaluation of our internal resources available;

- *site selection and lease negotiation.* at this stage our business development personnel will make site visit to the target cities, select the location of our new clinic base on the site selection criteria as disclosed below, and negotiate and enter into lease with the relevant property owners;

- *design.* At this stage, we will design our clinics following the applicable PRC laws and regulations, and file our design plans with the local health commission for approval;

- *construction and decoration of premises.* Upon the approval of our design plans be the competent authorities, we will engage third party contractors to conduct construction and decoration for our new premises; and

- *inspection and commencement of operations*. Upon completing of the construction, the relevant local authorities will conduct an inspection over our premises in respect of fire

safety, environmental compliance and others. We may commence the operations after all regulatory approval processes and necessary inspections have been completed.

In addition to the above procedures, the opening of a new clinic may also involve the recruitment of necessary personnel and the acquisition of equipment and supplies. According to our experience during the Track Record Period, the entire process generally takes around no more than eight months to complete. We consider location a critical factor in determining a clinic's long-term success. We carefully consider potential markets and conduct a systematic evaluation of each potential new clinic site. Our site selection criteria primarily include:

- GDP *per capita* and population density of the local community;
- presence of activity centers, such as offices, shopping complexes and residential areas that generate guest traffic;
- accessibility by public transportation, traffic conditions and parking space;
- number and nature of competitors in the commercial district; and
- rental costs, lease economics and estimated return on investment.

We also plan to upgrade three of our clinics to provide a better customer experience and customer satisfaction. The following table sets forth the details of our plans for the upgrade of our existing clinics in the next two years:

| Name of Existing Clinics | Current Status | Estimated GFA (sq.m.) | Expected Time of Opening |
|---|---|---|---|
| Guiyang Yonghe | Under planning | 3,805 | 2021 |
| Dongguan Yonghe | Under renovation | 3,084 | 2021 |
| Beijing Yonghe | Under renovation | 9,616 | 2022 |

In addition, to serve more patients with varied hair problems, we are building four comprehensive medical hair care service hospitals in Beijing, Shanghai, Guangzhou, and Shenzhen, including two hospitals to be newly established in Beijing and Shanghai (i.e., Beijing Yonghe Hospital and Shanghai Yonghe Hospital), and two hospitals to be transformed from existing clinics in Guangzhou and Shenzhen (i.e., Guangzhou Yonghe and Shenzhen Yonghe). Our comprehensive medical hair care service hospitals plan to hire physicians from Class IIIA hospitals to diagnose and treat various hair-related diseases. We will also set up multiple hair-related specialty departments in addition to the hair transplant department, such as alopecia department, re-examination department, international department, and feminine beauty department.

Hospitals in China are ranked into three classes, i.e., Class I, II and III, with Class III being the highest class. We currently intend to apply for the Class I hospital certifications for our comprehensive medical hair care service hospitals. According to the applicable PRC laws and regulations, a Class I hospital needs meet certain standards in respect of facilities, equipment and human resources, such as a

minimum of 20 registered beds, a minimum of three licensed physicians and five nurses, and the set-up of certain required clinical departments and medical technology departments. The relevant health commission at provincial level will be responsible for issuing the Class I hospital certifications. For details, see "Regulatory Overview — Regulations on the Administration and Classification of Healthcare Institutions" in this document.

***Acquisitions***

When appropriate opportunities arise, we will also consider acquiring clinics in new markets with a sizable population and a relatively high demand for hair transplant services. We believe our previous operating experience will aid us in identifying potential acquisition opportunities and successfully integrating newly acquired clinics' operations into our existing infrastructure. We systematically review and screen potential clinic targets. We evaluate clinic targets based on a number of criteria, including:

- the target's compatibility with our growth strategies;
- potentials to achieve synergies with our existing clinics;
- potential returns and estimated future value;
- the target's current operations and capacity taking into consideration its medical professionals and facilities, required licenses and permits for operations; and
- estimated cost to integrate the acquired business into our operations, ongoing operating expenses and capital requirements.

In May 2021, we expanded our footprint outside the mainland China by acquiring the Hong Kong business of *Nu/Hart Hair* (顯赫植髮), a renowned hair transplant service provider originated from the U.S. As of the Latest Practicable Date, we had not entered into any letters of intent or agreements with respect to acquisitions or had identified any definite acquisition targets. For more details of this acquisition, see "History, Development and Corporate Structure — Acquisition of Nu/Hart Hair Solutions Limited" in this document.

To execute our business strategies, we plan to acquire independent local hair transplant clinics to expedite the concentrated multi-location expansion in key regions. We will focus on major economically developed regions in China with high population density, such as South China and East China, to accelerate our rise to the top in those regions. We will consider a variety of factors when selecting acquisition targets, such as the target's diagnostic and treatment capabilities, local brand goodwill, and the medical staff. According to Frost & Sullivan, independent local hair transplant institutions are a significant group of market participants in China's hair transplant service market and there are several suitable acquisition targets available in the market. See "Industry Overview — The hair transplant service market in China — Market Players and Competitive Landscape" for details. We currently have no specific target in negotiations.

## OUR TOP TEN CLINICS

We did not have any loss-making clinics in terms of gross profit during the Track Record Period. The table below sets forth the revenue and gross profit of our top ten clinics (in terms of total revenue contribution during the Track Record Period) for the periods indicated:

| | Year Ended December 31, | | | | | | | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2019 | | | | 2020 | | | | 2021 | | | |
| Clinic[1] | Revenue | | Gross Profit | | Revenue | | Gross Profit | | Revenue | | Gross Profit | | Revenue | | Gross Profit | |
| | *RMB'000* | *% of total* | *RMB'000* | *% of total* | *RMB'000* | *% of total* | *RMB'000* | *% of total* | *RMB'000* | *% of total* | *RMB'000* | *% of total* | *RMB'000* | *% of total* | *RMB'000* | *% of total* |
| Beijing Yonghe | 142,302 | 15.2% | 116,509 | 16.6% | 145,731 | 11.9% | 110,224 | 12.4% | 140,316 | 8.6% | 105,606 | 8.6% | 76,700 | 7.3% | 57,778 | 7.5% |
| Guangzhou Yonghe | 73,697 | 7.9% | 52,687 | 7.5% | 100,338 | 8.2% | 74,470 | 8.4% | 105,787 | 6.5% | 77,864 | 6.4% | 60,708 | 5.8% | 43,629 | 5.6% |
| Shenzhen Yonghe | 59,969 | 6.4% | 45,063 | 6.4% | 89,090 | 7.3% | 64,874 | 7.3% | 104,184 | 6.4% | 80,015 | 6.5% | 66,167 | 6.3% | 50,800 | 6.6% |
| Chengdu Yonghe | 46,782 | 5.0% | 35,187 | 5.0% | 53,584 | 4.4% | 39,938 | 4.5% | 80,212 | 4.9% | 63,872 | 5.2% | 37,609 | 3.6% | 30,301 | 3.9% |
| Shanghai Yonghe | 53,410 | 5.7% | 43,214 | 6.2% | 61,715 | 5.0% | 50,012 | 5.6% | 77,494 | 4.7% | 64,309 | 5.3% | 44,101 | 4.2% | 34,112 | 4.4% |
| Nanjing Yonghe | 27,155 | 2.9% | 19,355 | 2.8% | 48,279 | 3.9% | 34,242 | 3.9% | 59,482 | 3.6% | 43,050 | 3.5% | 31,670 | 3.0% | 22,974 | 3.0% |
| Hangzhou Niufeisi | 44,291 | 4.7% | 34,850 | 5.0% | 47,093 | 3.8% | 31,972 | 3.6% | 57,820 | 3.5% | 43,097 | 3.5% | 26,218 | 2.5% | 18,339 | 2.4% |
| Wuhan Yonghe | 58,151 | 6.2% | 44,197 | 6.3% | 60,524 | 4.9% | 44,978 | 5.1% | 53,260 | 3.3% | 39,372 | 3.2% | 32,690 | 3.1% | 25,228 | 3.3% |
| Zhengzhou Yonghe | 36,495 | 3.9% | 28,580 | 4.1% | 39,208 | 3.2% | 29,873 | 3.4% | 50,170 | 3.1% | 39,233 | 3.2% | 33,575 | 3.2% | 26,275 | 3.4% |
| Xi'an Beilin Yonghe | 30,112 | 3.2% | 24,179 | 3.4% | 40,133 | 3.3% | 32,760 | 3.7% | 54,731 | 3.3% | 44,051 | 3.6% | 35,913 | 3.4% | 27,664 | 3.6% |
| **Total** | **572,364** | **61.3%** | **443,821** | **63.2%** | **685,695** | **56.0%** | **513,343** | **57.7%** | **783,456** | **47.8%** | **600,469** | **49.2%** | **445,351** | **42.3%** | **337,100** | **43.5%** |

*Notes:*

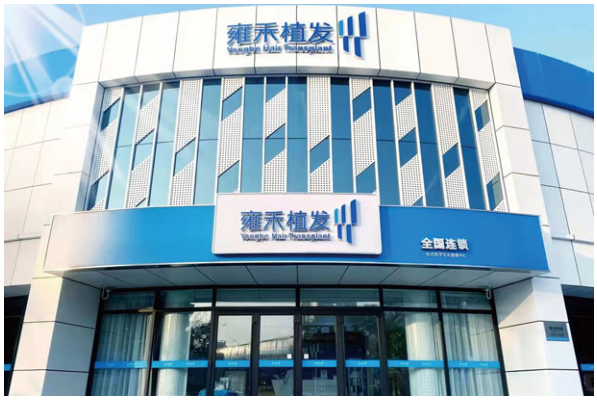
(1) Represents the name of the clinics in operation in the relevant cities as of the Latest Practicable Date.

(2) The revenue of Beijing Yonghe declined in 2020 as compared to 2019 primarily due to the impact of the COVID-19. We restricted in-store traffic of Beijing Yonghe as requested by the relevant governmental authorities in Beijing for around one and half months from February to March in 2020. Beijing Yonghe had rapidly resumed its operation since April 2020, and the total revenue of Beijing Yonghe for the second half of 2020 increased by approximately 10.5% as compared to the corresponding period in 2019.

The table below summarizes the key operating data of our top ten clinics:

| | | | Number of Hair Transplant Patients/ Surgeries | | | | |
|---|---|---|---|---|---|---|---|
| Clinic | Year of Establishment | GFA | 2018 | 2019 | 2020 | Six Months Ended June 30, 2021 | Number of Medical Professionals as of June 30, 2021 |
| | | *(sq.m.)* | | | | | |
| Beijing Yonghe | 2013 | 4,012 | 4,847 | 4,631 | 3,792 | 1,765 | 67 |
| Guangzhou Yonghe | 2013 | 6,174 | 2,779 | 3,273 | 3,233 | 1,679 | 66 |
| Shenzhen Yonghe | 2015 | 5,225 | 2,598 | 3,330 | 3,210 | 1,700 | 53 |
| Chengdu Yonghe | 2012 | 3,220 | 1,975 | 2,097 | 2,599 | 1,132 | 38 |
| Shanghai Yonghe | 2015 | 1,786 | 2,022 | 2,095 | 2,323 | 1,209 | 45 |
| Nanjing Yonghe | 2015 | 2,906 | 1,091 | 1,567 | 1,840 | 902 | 30 |
| Hangzhou Yonghe Meidu | 2017 | 3,202 | 1,756 | 1,696 | 1,709 | 676 | 25 |
| Wuhan Yonghe | 2011 | 2,463 | 2,280 | 2,244 | 1,607 | 959 | 30 |
| Zhengzhou Yonghe | 2016 | 1,756 | 1,420 | 1,617 | 1,669 | 966 | 30 |
| Xi'an Beilin Yonghe | 2016 | 3,140 | 1,088 | 1,480 | 1,928 | 1,241 | 32 |

The following images show our clinics we currently operate.



## ORGANIZATIONAL STRUCTURE

Our internal organization consists of three components, namely our headquarters, regional groups and clinics. Our organizational structure enables us to implement uniform standards across our nationwide clinic network.

### Headquarters

Our headquarters effectively maintains control over critical aspects of our Group, including medical safety, legal compliances, brand and marketing strategies, procurement, information technology, finance and clinic expansion management. We believe that these aspects of our operations require

standardized management to ensure the quality of our medical service and efficiency of our resources allocation. Moreover, we believe that standardized operations in these aspects facilitate our scalable expansion.

**Regional Groups**

As of the Latest Practicable Date, our clinic network consisted of eight regional groups, which were responsible for directly supervising the clinics within their respective regions. Our regional managers are responsible for quality assurance, operational management, resource allocation and cost control of the clinics within their respective regions. They also supervise and support the individual clinics to ensure their strict adherence to our uniform operational standards and the realization of synergies that will spark sharing and allocation of medical resources within the region. For example, the deans of our clinics within a region regularly tour around different cities to share their expertise.

**Clinics**

The day-to-day operations of our clinics are managed by clinic managers and clinic medical directors. Our clinic managers are responsible for inspecting the daily operations and financial performance of our clinics. Our clinic medical directors supervise the overall medical service performance and medical quality.

## QUALITY ASSURANCE

Our management priority is to offer superior hair transplant and medical hair care services. To this end, we have adopted comprehensive and stringent quality assurance and control measures throughout our business process, which cover, among others, the following areas:

**Medical Service Quality Assurance**

Although hair transplant is a relative safe surgery, we have established a strict quality control framework to ensure the safety and quality of the medical services provided by our clinics. Our clinic medical directors are responsible for controlling the quality of our medical services.

We have implemented surgical safety guidelines and manuals for the performance of surgical procedures and the use of treatment devices in areas such as obtaining consent from customers, requirements for devices, explaining to customers possible reactions during the use of treatment devices, conducting pre- and post-surgery checks on customers, and emergency response. According to our guidelines, our physicians should provide the most appropriate treatment plan for the patients after diagnosis to ensure the safety and effectiveness of the treatment.

Our comprehensive quality control system primarily includes:

- the implementation of a highly standardized service procedure with clear division of duties to ensure that our patients can receive high-quality medical service in any of the clinics in our network. For example, we have implemented the *Medical Service Procedure Guidelines* detailing the contents and standards for each step of our service processes from patient consultation and examination to post-treatment services;

- the adoption of unified technical guidance for all of our medical professionals to comply with in each hair transplant surgery. For example, we have adopted the *Unified Operational*

*Manual* setting out detailed technical and operational requirements in hair transplant surgeries, such as the correct position of extracting follicular unit, the proper density and volume of follicular transplant, and the proper anesthetic dosing. In particular, during the hair transplant surgery, we use the local infiltration method to inject a low concentration of anesthetic agent into the tissues in the area that requires anesthesia, and the loss-of-sensation produced by such method will be restricted to a superficial, localized area in the body. Our patients generally remain conscious and are able to freely communicate with our medical professionals during the entire surgery. We generally use a 2% lidocaine solution as the anesthetic agent at a dose not exceeding the maximum toxic dose of the day, which is in line with the requirements set out in the Hair Transplantation Standard issued by the Chinese Association of Plastics and Aesthetics (中國整形美容協會). We also complied the *Contraindications for Hair Transplant and Treatment Guidance* to screen out patients who are unsuitable for hair transplant and further ensure the safety of our hair transplant surgeries; and

- the implementation of a series of internal management rules to discipline the behavior of our medical professionals. To this end, we have implemented the *Basics for Keeping Medical Record*, *Medical Accidents Prevention and Treatment Guidance*, the *Emergency Reporting and Handling Guidance*, the *Eight Medical Behaviors Unallowed in Office* (《醫療行為"八不准"制度》) and various other rules.

In addition, we regularly conduct review of the performance of our physicians and other medical professionals. Our medical professionals are properly trained when joining us and accept on-the-job training regularly. For details, see "— Our Professional Team" below in this section. We also invite physicians who are experts in hair disease diagnosis and treatment from public hospitals to conduct consultation and train our staff from time to time. These physicians will not directly deliver diagnostic and treatment services to our patients at our clinics. As advised by our PRC Legal Adviser, the physicians from other hospitals conducing consultation and training activities at our clinics does not violate any applicable PRC laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any regulatory actions or claims for damages as a result of such consultation and training activities. As further advised by our PRC Legal Adviser, as the holders of the Medical Institution Practicing licenses, our clinics are responsible for liabilities arising from regulatory actions or claims for damages as result of the services provided by our medical professionals. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material regulatory actions or claims in this regard. We are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by our patients against us. For details, see "— Legal Proceedings and Claims" below in this section.

We believe our comprehensive quality control system disclosed above has effectively controlled the safety and quality of the services provided by our medical professionals, and in turn controlled the occurrence of our medical disputes at a manageable level. Therefore, we do not maintain any form of medical liability insurance. Thanks to our strict quality control framework, we are able to achieve and maintain outstanding treatment results for our patients. To further enhance patient experience, we trailblazed a new cooperation model with a third party insurance company to provide guarantee on our treatment results to our hair transplant patients. For details, see "— Insurance" below in this section.

### Medical Device and Consumables Quality Assurance

We place great importance on the medical devices and medical consumables that are introduced into our clinics to ensure that they are reliable and capable of providing the desired results to our customers. To this end, we have developed policies and procedures for the assessment and evaluation of medical devices and medical consumables. We have developed supplier management rules and supplier qualification management process to ensure that our suppliers provide qualified medical supplies. For more details, see "— Procurement and Inventory Management" of this section.

## OUR PROFESSIONAL TEAM

The qualification and expertise of physicians and other medical professionals practicing at our clinics are vital to the quality of services provided by our clinics and our competitiveness. We believe our professional team is at the core of our medical hair care services. We maintain high standards in selecting experienced medical professionals and provide competitive compensation packages.

The professional team at our clinics comprises physicians, nurses and other medical professionals. As of December 31, 2020 and June 30, 2021, we had a sizable team of 189 and 226 registered physicians, respectively, larger than the combined number of the second and the third market players, according to Frost & Sullivan. The number of physicians and nurses at our clinics far exceed the minimum standards set forth in 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 requires each department of aesthetic medical clinic to have at least one physician and one nurse. For details of the regulatory requirements, see "Regulatory Overview — Regulations on the Aesthetic Medical Services" in this document. All of the 246 registered physicians as of the Latest Practicable Date were our full-time employees, while 14 out of the 246 physicians were also practicing at other medical institutions when they were off-duty at our Group. As advised by the PRC Legal Adviser, the multi-institution practice of physicians are allowed and encouraged under the applicable laws and regulations, provided that they complete the required application and registration procedures. For details, see "Regulatory Overview — Laws and Regulations on Medical Personnel of Healthcare Institutions — Several Opinions on Accelerating the Development of Medical Institutions with Social Capital and Several Opinions on Promoting and Standardising Multi-Institution Practice of Medical Practitioners. The aforesaid physicians have completed all the required approval and registration procedures , and we believe their multi-Institution practicing would not affect their services at our Group.

The following table sets forth a breakdown of our professional team members at our clinics at the end of the periods indicated:

| | As of December 31, 2020 | As of June 30, 2021 |
|---|---|---|
| **Professional Team** | | |
| Physicians | 189 | 226 |
| – Medical Aesthetic Attending Physician | 38 | 64 |
| – Other Physicians | 151 | 162 |
| Nurses | 901 | 920 |
| Other medical professionals | 44 | 54 |
| – Pharmacists | 2 | 2 |
| – Phlebotomists | 42 | 52 |
| **Total** | **1,134** | **1,200** |

Our physicians, nurses and other medical professionals are required to be registered in accordance with the relevant healthcare administrative authorities in the PRC. We closely monitor the qualification registration and licensing records to ensure that all physicians practicing at our in-network clinics comply with all applicable requirements under PRC laws and regulations.

We believe our experienced and stable medical professionals are key to our success. As of June 30, 2021, physicians practicing at our in-network clinics had an average of five years of industry experience, nurses practicing at our in-network clinics had an average of three years of industry experience, longer than the average years of working experiences of the medical professionals of our competitors, according to Frost & Sullivan.

We have maintained a relatively stable medical professional team during the Track Record Period even though the number of our physicians experienced significant growth in the past three years. As of the end of 2018, 2019, 2020 and the six months ended June 30, 2021, we had 92, 111, 189 and 226 physicians, respectively. The turnover rate of our physicians was 4.4%, 4.4%, 4.8% and 3.2% in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, which was much lower than the typical physician turnover rate at similar hair transplant clinics in China, according to Frost & Sullivan.

Although we attach significant value to the contribution of our physicians, we believe that we do not have any undue reliance on our key physicians. In 2018, 2019, 2020 and the six months ended June 30, 2021, revenue contributed by our top ten physicians accounted for 26.8%, 21.3%, 16.8%, and 13.7% of our total revenue from hair transplant services, respectively, and revenue contributed by the top physician merely accounted for 3.4%, 3.0%, 2.2% and 1.7% of our total revenue from hair transplant services in the same periods. Our employment contracts with such physicians generally have a term of five years, provide for a notice period of 30 days for resignation, and contain non-compete clauses restricting them from engaging in business activities that compete with our business for two years upon termination of their employment. Each of our top ten physicians has been practicing for years and has rich experience in performing hair transplant surgeries. As of June 30, 2021, our top ten physicians for each of the years/period comprising the Track Record Period had an average of over nine years of practicing experience. Their time of service at our Group ranges from four to twelve years, and as of the Latest Practicable Date, all of such physicians remained in service at our Group.

In 2018, 2019, 2020 and the six months ended June 30, 2021, the total remuneration (including share-based compensation) for our top ten physicians amounted to approximately RMB5.0 million, RMB12.3 million, RMB12.9 million and RMB4.9 million, respectively. Such remuneration increased significantly from 2018 to 2019, primarily because in 2019, we started to adopt a performance-based pay scheme in addition to fixed salaries, in order to incentivize our hair transplant physicians, and to boost our overall business performance. The effective implementation of the performance-based pay scheme from 2019 had enabled us to properly reward and incentivize our physicians, particularly the top performers, based on their respective contribution to our business growth. According to Frost & Sullivan, the salary level of physicians in the hair transplant industry in China depends on a lot of factors. Some of such factors attribute to the institutions where the physicians work for (e.g., the location, reputation, and financial performance of the hair transplant institutions, the pay schemes adopted by the hair transplant institutions, etc.), and some of such factors attribute to the physicians themselves (e.g., the fame of the physicians, etc.). Based on the market research conducted by Frost & Sullivan, during the Track Record Period, the average annual salaries of hair transplant physicians in China were generally within the range of RMB0.3 million to RMB0.4 million in 2018, RMB0.4 million to RMB0.5 million in 2019, and RMB0.4 million to RMB0.5 million in 2020, but for certain "famous hair transplant physicians" in China who are well-known in the industry, highly-regarded by their peers, and whose services are sought-after by the patients, their annual salaries were generally within the range of RMB0.4 million to RMB0.7 million in 2018, RMB0.6 million to RMB1.5 million in 2019, and RMB0.8 million to RMB2.0 million in 2020. As confirmed by Frost & Sullivan, the fame of hair transplant physicians in turn depends on a number of factors, such as the number of years of their practice experience, their education background, their professional skills and capabilities, the positions and titles they hold in industry associations/academic institutions, etc. Although the length of practicing experience is a key factor in determining the fame of a physician, there are a number of hair transplant physicians in China who became famous because of their high quality services, superb treatment effect, and kind attitude towards the patients, among other factors, despite their relatively short practicing experience. Based on the market research conducted by Frost & Sullivan, we had been able to attract and retain a large number of "famous hair transplant physicians" in the industry, and all of our top ten physicians for each of the years/period comprising the Track Record Period were "famous hair transplant physicians" who are well-known among, and whose services are frequently sought-after by, the patients. The remuneration packages (including their compositions) we provide to these physicians are competitive in the industry, and meanwhile were generally in line with the market norm during the Track Record Period, according to Frost & Sullivan.

We generally recruit registered physicians with relevant practice experience. We conduct eligibility searches on the candidates to be recruited to ensure they have the required working experience and qualifications for the new positions. We also plan to cooperate with China's most renowned medical schools and prestigious medical institutions to build up our talent pipeline. We believe that we provide our medical professionals with competitive compensation packages, continued medical education opportunities, nice working environment and career development. Our physicians are compensated by fixed salaries and performance-based bonuses based on their ability to meet or exceed the applicable key performance indices set by the management such as number of hair transplant surgeries performed by the physicians, attendance and patient feedbacks, which may vary from time to time according to business needs.

We provide structured training and education programs to enable our medical professionals to consistently deliver high quality services. For example, each of our newly recruited physicians is required to undergo a systemic training that lasts for four to six months, including, among others, a clinical

practice training under the one-on-one supervision of our deans for at least one month. After the training period, we will assess the physician's professional capabilities by testing their theoretical knowledge and practical skills. We also provide comprehensive on-the-job training for our medical professionals regularly. For example, we keep active dialogues and exchanges of information with well-respected medical institutions in China, and invite leading experts or well-known specialists on a regular basis to share with us their clinical experiences and latest developments in the industry.

We also place significant emphasis on other employee trainings and development. We invest in training programs for our employees with the purpose of upgrading their knowledge on the latest development of the hair transplant and medical hair care industry. 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.

## OUR INFORMATION TECHNOLOGY

We seek to be a pioneer in the application of latest technologies in China's hair transplant industry, while focusing on enhancing customer experience and increasing operating revenue. Some of our efforts to enhance customer experience are listed below.

### Data Usage and Analyses

We have set up an advanced business management system to track, record, and present operational data from our clinics nationwide. According to Frost & Sullivan, we are the first and as of the Latest Practicable Date, the only hair transplant clinic chain in China that realized the real-time presentation and analysis of various key operating metrics, such as the number of patients, the volume of hair transplant surgery, and the volume of follicular transplant. On the one hand, real-time data presentation enhances the transparency of our healthcare services, thereby improving our patients' treatment experience. On the other hand, by analyzing the data collected from operations, we are able to quickly and accurately identify and meet our patients' demands, effectively manage customer profiles, and develop models for predicting the needs of patients, making prognoses, advising diagnostic and therapeutic procedures, and implementing targeted advertising.

### Intelligent Services

We have launched a set of intelligent consultation service software for graphic, telephonic, and video consultation services. That software helps conduct initial screening and triage of patients online, uploads medical records in real time, facilitates perioperative patient management, and provides patients with convenient online consultation and postoperative services. Our service software provides customized services to different types of patients in need of different treatments, e.g., automatically attending to patients at various preoperative stages, and anticipating and satisfying patients' needs at various postoperative stages. Using artificial intelligence algorithms for customer service, we provide automated and intelligent real-time responses to customers' online inquiries.

In addition, we are actively applying smart devices, such as follicular detectors, to save our labor costs. Our follicular detector embodies advanced technologies, such as intelligent image recognition and big data algorithms, which can provide patients with accurate medical test reports, including scalp environment analysis, sebum test analysis, hair follicle health analysis, hair density analysis, hair diameter analysis, diagnostic results, and medical advice, thus greatly enhancing patient consultation experience and the professional quality of service.

## Online Services

We are actively promoting online medical services, and have put together a dedicated online medical staff. Our online medical service system allows real-time upload of medical documents, such as the patient's medical records, thereby bringing convenient and professional online consultation and postoperative review services to patients. We use Internet platforms to provide online medical services. For example, we developed a hair management mini-program on WeChat to give patients convenient access to introductions of hair transplant procedures, credential of our physicians pricing information, recent discount policies, and so on. As of the Latest Practicable Date, our WeChat service platform, Hair Manager, had over 811,000 registered users. As advised by our PRC Legal Adviser, since the online services we provide to our patients and other online users do not fall within the scope of value-added telecommunication services as stipulated in the applicable PRC laws and regulations, we are not subject to any license requirements and/or foreign ownership restrictions for providing such online services.

The pictures below illustrate our data usage and analyses system, smart follicular detector and our WeChat service platform.

As one of our business strategies, we plan to expand our online hospital services in the future, which primarily include the sales of pharmaceuticals and medical devices online and the provision of medical diagnostic and treatment services online, and we plan to provide such online services through online platforms operated by third parties. As advised by our PRC Legal Adviser, in addition to the Medical Institution Practicing License and the Business License, we are required to obtain the License for Drug Information Services over the Internet (互聯網藥品信息服務許可證) in order to sell pharmaceuticals through online platforms operated by third parties and the Registration Certificate for Operating Medical Devices (醫療器械經營備案憑證) in order to sell medical devices through online platforms operated by third parties, and to add "online diagnosis and treatment (互聯網診療)" into the business scope contained in our Medical Institution Practicing License, according to the applicable laws and regulation in China. As of the Latest Practicable Date, the operating entity of our online services, Beijing Yonghe, had obtained the License for Drug Information Services over the Internet and the Registration Certificate for Operating Class II Medical Devices, and had successfully added "online diagnosis and treatment" to the business scope contained in its Medical Institution Practicing License.

We might be subject to additional regulatory requirements with the expansion of our online services, and we will strictly comply with the applicable rules and regulations to conduct online services in the future. However, the laws and regulations regarding online services in China are generally complex and evolving, with uncertainty as to the interpretation and application thereof. If our online services are subject to any additional licensing or registration requirements in the future, we may have to incur significant expenses to obtain the necessary licenses and/or registration certificates, and if we fail to meet the relevant regulatory requirements, we may need to shrink, or even cease, our online services, which may adversely affect our business, financial condition, results of operations and prospects. For details, see "Risk Factors — Risks Relating to Our Business — Any lack of requisite approvals, licenses, permits, registrations or filings applicable to our business may have a material and adverse impact on our business, financial condition and results of operations".

## OUR DEVICES AND EQUIPMENT

Our clinics are equipped with advanced devices and equipment to provide our patients with accurate diagnoses and treatment while minimizing pain and time of treatment procedures. The table below sets forth details of our major medical devices and equipment:

| Equipment/Device | Type | Principal Use | Average Remaining Useful Live |
|---|---|---|---|
| ***For hair transplant services*** | | | |
| PK-7000 | Medical Device | follicular unit extraction | four to five years |
| Shadowless Floor Standing Surgical Lamp (YCLED500L) | Medical Device | surgical lighting | three to five years |
| Shadowless Ceiling Mounted Surgical Lamp (YCLED700/500) | Medical Device | surgical lighting | two years |
| ***For medical hair care services*** | | | |
| SKIN Management Device (SKIN管理儀) | Hair Restoration Device | cleans scalp to enhance the absorption of hair care products | four years |
| Photodynamic Instrument (光動力儀) | Hair Restoration Device | promotes wound healing and reduces scalp inflammation | four years |

In addition, to facilitate fast post-surgery recovery and enhance medical hair care treatment results, we also provide various portable medical devices such as head massager (頭部按摩器), laser hair care helmet (激光健發頭盔) and multi-functional hair comb (多功能健發梳) to our patients for use at home. We plan to continuously improve and upgrade our facilities and equipment to provide better services to our patients, which improvement and upgrade will be partially funded with [**REDACTED**] from the [**REDACTED**]. For details, see "Future Plans and Use of [**REDACTED**]" in this document.

## PRICING AND PAYMENT

Pricing policies are determined by our headquarters based on cost and market positioning. Our headquarters has adopted a uniform pricing guideline. We generally apply the same prices for our services across all clinics in our network. In line with industry practice, the local clinics from time to time offer discounts to customers for certain services they provide, as part of their marketing strategies. Managers of the local clinics have the discretion to determine the appropriate discount level for the relevant services, so long as the discount rate is no higher than 12% (calculated based on the standard prices setting forth on the price guideline). Subject to our headquarters' prior approval, the local clinics can offer the patients discounts rates higher than 12%, but such discount rates generally would be no higher than 20%. During the Track Record Period, we recorded our revenue based on the actual prices we charged (i.e., after taking into consideration the discounts offered, if any), and did not record the exact amounts of the discounts offered by the clinics. For details of our revenue recognition, see "Financial Information — Significant Accounting Policies and Critical Judgments and Estimates — Significant Accounting Policies — Revenue Recognition."

Our internal pricing policy provides reference price points of various treatment options across our operations in the PRC. We set this price taking into account certain factors, such as experience of physicians, customer needs and operating costs.

With respect to medical hair care services, we generally offer services by providing treatment program packages that are designed to address the sophisticated needs of customers, allowing the customers to receive appropriate comprehensive medical hair care services. We set this price taking into account certain factors, such as market condition, customer needs, complexity of the treatment, pricing policies of competitors and operating costs.

We generally review our prices annually according to our internal pricing policy. Our headquarters and regional managers strictly control and monitor clinical prices to ensure they have followed our pricing policies. We also closely monitor the pricing of our competitors in the same regions to evaluate our pricing.

## CASH MANAGEMENT

We accept cash, credit cards, WeChat Pay, Alipay and other online payment at our clinics, as non-cash payments become increasingly common. As a result, cash payments as a percentage total payments from our guests was low during the Track Record Period, and for the year ended December 31, 2020, the percentage was approximately 1.8%.

To avoid misappropriation and embezzlement of cash, we have deployed a financial management system provided by a third party at each of our clinics. Clinic financial managers are responsible for ensuring that cash received during the day matches the sales records and is timely transferred to bank accounts. We also monitor the accuracy of sales through business and operation systems installed at our clinics.

During the Track Record Period, we had not encountered any incident of cash misappropriation or embezzlement that had a material adverse impact on our business, results of operations or financial condition.

## OUR CUSTOMERS

During the Track Record Period, substantially all of our customers base consisted of individual customers, and none of these individual customers accounted for more than 5% of our total revenue. We have not entered into any long-term agreements with our individual customers. We generally do not extend any credit periods to our customers.

To the best knowledge and belief of our Directors, our five largest customers during the Track Record Period were Independent Third Parties. None of our Directors or their close associates or any of our Shareholders (who, to the best knowledge of our Directors, beneficially own more than 5% of our share capital) had any interest in any of our five largest customers during the Track Record Period.

## OUR SUPPLIERS

During the Track Record Period, our suppliers primarily included providers of advertising services, IT services, and pharmaceuticals, surgical consumables and hair care products. We have maintained a list of suppliers approved by our senior management team.

Our headquarters is in charge of our overall procurement strategy. Pharmaceuticals, surgical consumables, hair care products and other products are centrally procured by the headquarters. Most procurements have gone through a tender or price comparison process except for a few local procurements in a small scale. For any given type of raw materials or supplies, we typically have multiple suppliers in order to obtain competitive prices from suppliers, maintain sourcing stability and avoid over-reliance risk. During the Track Record Period, we did not experience any interruption in our supplies, early termination of supply agreements, or failure to secure sufficient supplies that had any material adverse impact on our business or results of operations. Our suppliers generally offer us a credit term of 30 to 90 days. We typically settle trade payable obligations with respect to our suppliers through bank transfers. Our procurement agreements with our suppliers generally do not contain any minimum purchase commitment. During the Track Record Period, we made minimum purchase commitments to only two suppliers, including an advertising service provider (supplier A in the tables below) who provides online advertising and marketing services to us, and a raw material supplier who provides routine hair care products to us. During the Track Record Period and up to the Latest Practicable Date, we had entered into four framework agreements with supplier A, which contained a minimum purchase amount of RMB120.0 million (for the contract period from March 2018 to March 2019), RMB142.0 million (for the contract period from March 2019 to March 2020), RMB50.0 million (for the contract period from April 2020 to April 2021) and RMB100.0 million (for the contract period from February 2021 to January 2022), respectively. For the three expired agreements, we had fulfilled our minimum purchase commitments during the relevant contract periods, and the agreement that is still in effect provides that if our total purchase amount during the contract period falls below 80% of the minimum purchase commitments, the supplier may deduct the shortfall from the deposits we paid to the supplier and if the deposits are insufficient, we shall pay for the remaining outstanding amount in cash. As of the Latest Practicable Date, we were not aware of any obstacles that would affect our ability to fulfill our commitments thereunder. For other salient terms of the agreements we entered into with our advertising service providers, see "— Marketing" below. The agreement we entered into with the raw material supplier had an initial term of five years, subject to an annual minimum purchase commitment of the British pound of approximately £0.8 million, £0.9 million, £1.1 million, £1.3 million and £1.6 million, respectively, from the first to the fifth year. If we fail to fulfill the commitment, the parties will renegotiate the terms and conditions thereunder on an arm's length basis. We entered into the agreement

in January 2021 and as of the Latest Practicable Date, we were not aware of any obstacles that would affect our ability to fulfill our commitments for the first year thereunder.

For each of 2018, 2019, 2020 and the six months ended June 30, 2021, purchases from our five largest suppliers amounted to RMB186.4 million, RMB280.6 million, RMB278.7 million and RMB217.4 million, respectively, representing approximately 23%, 25%, 20% and 23%, respectively, of our total purchases for the respective periods. For each of 2018, 2019, 2020 and the six months ended June 30, 2021, purchases from our largest supplier amounted to RMB119.2 million, RMB168.9 million, RMB114.9 million and RMB71,3 million, respectively, representing approximately 15%, 15%, 8% and 7%, respectively, of our total purchases for the respective periods.

The tables below set forth the basic information of our top five suppliers during the Track Record Period.

| Supplier | Product or Service Supplied For 2018 | Purchase Amount | Percentage of Total Purchases |
|---|---|---|---|
| | *(RMB in thousands, except percentages)* | | |
| Supplier A | Search engine related advertisements | 119,162 | 15% |
| Supplier B | Display advertisements in subway stations | 19,047 | 2% |
| Supplier C | Display advertisements in subway stations | 16,803 | 2% |
| Supplier D | Labour outsourcing services | 16,601 | 2% |
| Supplier E | IT services | 14,832 | 2% |

| Supplier | Product or Service Supplied For 2019 | Purchase Amount | Percentage of Total Purchases |
|---|---|---|---|
| | *(RMB in thousands, except percentages)* | | |
| Supplier A | Search engine related advertisements | 168,859 | 15% |
| Supplier E | IT services | 39,372 | 4% |
| Supplier F | Promotion services through a social network platform | 32,073 | 3% |
| Supplier G | Promotion services through an online community | 25,448 | 2% |
| Supplier H | Display advertisements in elevators | 14,819 | 1% |

| Supplier | Product or Service Supplied For 2020 | Purchase Amount | Percentage of Total Purchases |
|---|---|---|---|
| | *(RMB in thousands, except percentages)* | | |
| Supplier I | Promotion services through an online community | 114,862 | 8% |
| Supplier A | Search engine related advertisements | 80,746 | 6% |
| Supplier F | Promotion services through a social network platform | 29,002 | 2% |
| Supplier J | Display advertisements in elevators | 28,428 | 2% |
| Supplier K | Promotion services through an online community | 25,632 | 2% |

| Supplier | Product or Service Supplied For the Six Months Ended June 30, 2021 | Purchase Amount | Percentage of Total Purchases |
|---|---|---|---|
| | *(RMB in thousands, except percentages)* | | |
| Supplier I | Promotion services through an online community | 71,264 | 7% |
| Supplier A | Search engine related advertisements | 48,165 | 5% |
| Supplier L | Promotion service through online communities | 40,484 | 4% |
| Supplier F | Promotion services through a social network platform | 30,176 | 3% |
| Supplier K | Promotion services through an online community | 27,327 | 3% |

All of our top five suppliers during the Track Record Period were Independent Third Parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our top five largest suppliers required to be disclosed under the Listing Rules.

## MARKETING

We believe that ultimately, our reputation has been, and will continue to be, built upon our service quality, and that the most effective marketing channel is the spontaneous word-of-mouth referral by our satisfied customers. Based on a survey conducted by Frost & Sullivan among over 1,100 patients who received our services, 29.7% of the surveyed patients first learned about us through recommendations from their friends or family members, and 88.5% of the surveyed patients indicated that they will recommend us to their friends and family members who are in need of hair transplant services.

In the meantime, we recognize the importance of long-term investment in brand building and consumer education. Therefore, in line with other players in the consumer medical service industry, particularly the hair-related healthcare industry, we made significant investments in promoting customer awareness of our brand and our services, and expect to continue to do so in the near future.

We have designed a comprehensive marketing strategy, and utilize a combination of online and offline channels to promote our brand and our services, using various forms of advertisements.

- Brand advertising. We place display advertisements in cooperation with large online channels in China such as Tencent and Bytedance, in order to reach a broad potential customer base and to raise our brand awareness. For many key cities with large population and huge needs for hair transplant and medical hair care services, we also place display advertisements in offline sites with high customer traffic volume, such as subway stations, large office buildings, shopping complexes and cinemas. We also seek to embrace the latest trends in social-based marketing by sponsoring the livestreaming of popular sports games and a number of TV shows.

- Performance-based advertising. We cooperate with many leading online channels in China and place different types of performance-based advertisements. For example, we cooperated with Baidu and conduct search engine-based promotion. We also collaborate with large social network sites and online communities such as Weibo, Bilibili, and Tik Tok, and aim to design more targeted and focused marketing strategies to effectively reach and attract our potential customers from such sites.

- Offline customer education. In addition, our professional medical staff and sales and marketing staff would from time to time visit large enterprises in the region (for example, large internet companies such as Bytedance and iQiyi, and large enterprise in the finance industry). They would hold seminars, share hair care related knowledge, introduce the benefits of our services, and answer questions from the employees of those large enterprises.

The advertising channels employed by us primarily include online and offline channels. With respect to online advertising, we will typically enter into a service agreement with the relevant online channels to provide for, among others, service term, service content and payment method. During the agreed service term, each time when we place an online advertising order, we shall provide the advertisements to be published along with other detailed requests such as the form, time and target area to be published to the relevant online channels. We are generally required to make prepayments for such orders and the relevant online channels typically make settlements with us monthly based on the actual orders placed by us during the period. Our costs of online advertising are primarily calculated based on three metrics, including cost per time (CPM), cost per click (CPC) and cost per mille (CPM). With respect to offline advertising, we typically engage advertising agencies to design advertisements based on the materials provided by us and display the advertisements at specific sites such as subway stations, office buildings, shopping complexes and cinemas per our requests. The offline advertising service agreement typically bears a fixed amount for an advertising campaign and requires us to make payments in installments.

In addition, we actively assumed social responsibilities by initiating the "Yonghe Caring for Hair Loss Program" (雍禾脱髮愛計劃) charity project, in which we performed hair transplant services for free for patients suffering from hair loss caused by burns, scalds and other accidents, with an aim to help them improve their appearances and regain their confidence. Moreover, in 2020, during the COVID-19 outbreak in Wuhan, we again set an example for our industry by quickly responding to the situation and donating money and other resources to the Wuhan Charity Federation. Although we do not consider our such efforts to be marketing activities, we believe that such efforts have further enhanced our brand reputation and awareness.

## RESEARCH AND DEVELOPMENT

Research and development ("**R&D**") is critical to the sustainable growth of our business operations. We are focused on market-driven R&D. Our R&D team is primarily responsible for the innovation of medical technology and the implementation of data-based, intelligence-based and internet-based development strategy of our company.

All of our product R&D is geared towards satisfying customer needs. Our R&D team works closely with our operations and marketing teams to effectively drive our R&D results to fruition. For example, we set R&D goals and carry out product design to address customer needs and suggestions at the early project approval stage of R&D projects, with an emphasis on patient experience and service quality. Our marketing and operations teams are deeply involved in the R&D process and business models are constantly innovated and upgraded.

Medical technology is an important part of our R&D. Our collaboration with external R&D partners is an important part of our R&D strategy. We pay close attention to academic development and exchange, and continuously seek breakthroughs in hair transplant technology by utilizing the most

advanced theories obtained from external collaboration. We have entered into long-term collaboration arrangement with Sun Yat-sen University in the studies for follicular regeneration technologies. For example, we entered into a technology development agreement with Sun Yat-sen University in September 2020. Based on the agreement, we entrusted Sun Yat-sen University to develop small molecule drugs with an effect to promote follicular regeneration. We agreed to pay a total of RMB6.0 million by installments for the technology development under the agreement. The term of the agreement is three years. Either party has the right to apply for patent registration for the intellectual properties developed under the agreement. All the interests arising from the patent, once registered, shall be allocated between our Company and Sun Yat-sen University at percentage of 60% and 40%, respectively. This improves the level of research and development technologies relating to hair disease diagnosis and treatment, and participates in the formulation of diagnosis and treatment standards for hair diseases. We believe that such academic development and exchange will lead to the next breakthrough in the hair transplant industry. Our investment in these cutting-edge research areas will pay off with tremendous growth potential.

Our directors believe that we are committed to R&D of high quality technology that allows us to anticipate consumer preferences and meets customer needs. As of the Latest Practicable Date, we hold 24 invention patents for innovation and technology in China. We have spent RMB7.8 million, RMB8.9 million, RMB11.8 million and RMB6.2 million in R&D in 2018, 2019, 2020 and six months ended June 30, 2021, respectively. We have not capitalized our R&D expenditure during the Track Record Period.

## AWARDS AND RECOGNITIONS

As a testimony to our achievements and the quality of our service, hair transplant and hair care experience, we have received various awards and recognitions. The table below sets forth our major awards and recognitions we received during the Track Record Period.

| Year | Recipient | Accreditation/Award | Accreditation Organization |
|---|---|---|---|
| 2014 | Our Company | Gongyibao Charitable Clinic (慈善公益寶愛心醫院) | Hubei Charity Federation (湖北省慈善總會) |
| 2017 | Our Company | Demonstration unit of quality, service, and integrity commitment (質量、服務、誠信承諾示範單位) | Publicity Service Center of Hebei Administration for Industry and Commerce (河北省工商行政管理局宣傳服務中心) |
| 2018 | Our Company | Excellent Demonstration Unit for Quality and Trustworthiness (重質守信優秀示範單位) | Shanxi Market Daobao (山西市場導報) |
| 2020 | Our Company | People's Corporate Social Responsibility Award (人民企業社會責任獎) | People.cn (人民網) |

## PROCUREMENT AND INVENTORY MANAGEMENT

### Procurement

We have implemented procurement policies. Our headquarters makes centralized procurement according to the budget and the demand of the clinics. Most of the procurements have gone through a tender or price comparison process. The procurement department at the headquarters requests quotations from several suppliers and enters into procurement agreements after negotiating with the suppliers on commercial terms such as price and quantity, and some supplies are subject to a tender process. Our legal department keeps the original copy of the procurement agreements for record.

We have established a return and replacement management system and return defective or expired products to suppliers in accordance with market practice. During the Track Record Period, we have not encountered quality problems or received defective products that could have a material adverse effect on our business, financial condition or operations.

We purchase drugs, medical devices, medical consumables and other supplies from qualified suppliers based on their ability to supply, quality, pricing and service. We require suppliers to hold licenses and permits necessary for their business operation, such as business license and pharmaceutical product trading license. Our procurement department is responsible for reviewing the qualifications of suppliers, periodically reviewing and evaluating the performance of each supplier and checking their qualifications to ensure compliance of the products that we have purchased, and updating our list of suppliers. During the Track Record Period, we have not experienced supply shortages that could have a material or adverse effect on our business, financial condition or results of operations.

### Inventory Management

Our supplies are delivered by suppliers in accordance with purchase orders and placed in warehouses that meet storage standards based on their categories after they are inspected and accepted by warehouse management personnel. We use a fully functional supply chain management system for inbound and outbound logistics and inventory management. Such system can accurately display the inventory and related inbound and outbound records and reduce storage costs and risks of expired inventory. We fully comply with the storage requirements and laws and regulations related to medical and non-medical commodities during the storage period.

The inventory of hair transplant clinics mainly includes medical consumables, hair care products, drugs and office supplies and amounted to RMB14.3 million, RMB14.5 million, RMB27.0 million and RMB44.5 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. We strictly monitor our commodities in inventory, conduct regular physical inventory counts and establish a monthly-based inventory cycle to meet the demand of our clinics. We closely monitor the shelf life of all commodities, and once any commodity expires or medical device reaches the end of its service life, we safely dispose of the commodity or device in accordance with applicable laws and regulations. We have not experienced any significant inventory write-offs during the Track Record Period.

## CLIENT FEEDBACK AND COMPLAINT HANDLING

We value patient feedback and complaints as an important basis for improving our services. We take each patient's feedback seriously and have a standardised feedback mechanism to ensure that it is

dealt with in a timely and effective manner. We have several channels for receiving client feedback, such as proactive post-treatment satisfaction surveys and published complaint hotlines.

We have established a policy to reach out to all of our clients and inquire about their current conditions and their views with respect to our treatment provided, services received at our clinic, the effect of our services, and the areas that we can improve. During the Track Record Period, over 98% of the clients who provided their feedback expressed that they were generally satisfied with our services.

As of the Latest Practicable Date, we had a team of around 100 professionals who were responsible for client satisfaction. A team is designated to deal with any complaints raised by customers, who will respond positively and provide explanations and reassurances after promptly checking with the clinics. In conjunction with the clinic manager, we will investigate the case in question and analyse it after resolving the client's concerns. Depending on the circumstances, we may offer a refund to the client.

The table below summarizes the complaint rate and nature of unfavorable feedback we received for the periods indicated. As of the Latest Practicable Date, all of the unfavorable client feedbacks listed below had been properly addressed and satisfactorily resolved.

| | Year ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| **Nature of unfavorable feedbacks from clients** | **2018** | **2019** | **2020** | **2021** |
| Complaints regarding treatment results[(1)] | 0.05% | 0.03% | 0.03% | 0.02% |
| Complaints regarding our services[(2)] | 0.10% | 0.04% | 0.04% | 0.01% |
| Complaint rate of other unfavourable feedbacks[(3)] | 0.03% | 0.02% | 0.02% | 0.01% |

*Notes:*

(1) Calculated by the number of clients who complained that the treatment results were not up to their expectation divided by the total number of clients who had provided feedbacks.

(2) Calculated by the number of clients who complained they were unsatisfied with our services divided by the total number of clients who had provided feedbacks.

(3) Calculated by the number of clients who had other unfavorable feedbacks divided by the total number of clients who had provided feedbacks.

The total refunds we made to our hair transplant patients in 2018, 2019, 2020 and the six months ended June 30, 2021 amounted to approximately RMB3.0 million, RMB4.0 million, RMB5.2 million and RMB3.2 million, respectively, representing approximately 0.33%, 0.34%, 0.38% and 0.40% of our total revenue from hair transplant services for the same periods, respectively. Our Directors estimate variable considerations to be included in the transaction price for the refund to customers in respect of unsatisfactory services rendered. The refunds we made during the Track Record Period were in line with

the corresponding variable considerations estimated by our Directors. We update our assessment of expected refund on a regular basis and adjust refund liabilities accordingly. Based on the expected refund and from prudent perspectives, we recognized refund liabilities of approximately RMB3.9 million, RMB5.0 million, RMB7.6 million and RMB11.3 million, as of the end of 2018, 2019, 2020 and June 30, 2021, respectively. For details, see Note 4(a) "Estimation of variable consideration for refund to customers" of the Accountant's Report set out in Appendix I to this document. During the Track Record Period, for our medical hair care services, we did not made any material refunds to patients in respect of unsatisfactory services rendered. We may, from time to time, refund the patients for their unutilized prepaid packages. Since the services not yet rendered were recorded as contract liabilities, such refunds would not affect our revenue for the relevant periods. For details, see "Financial Information — Discussion of Certain Selected Items From the consolidated Statements of Financial Position — Contract Liabilities" in this document.

Our Directors further confirm that during the Track Record Period and up the the Latest Practicable Date, we did not experience any material medical incident involving fatalities or severe bodily injuries of our patients, nor did we receive any complaints or unfavorable feedback which had a material impact on our business and operation.

## MARKET AND COMPETITION

The hair transplant service market and medical hair care service market in the PRC have been competitive due to the abundance of medical institutions. According to Frost & Sullivan, we were the largest hair-related healthcare service provider in China in 2020 with a leading market share of approximately 10.5% and 4.3% in the hair transplant service market and the medical hair care service market, respectively. Our major competitors include other private hair transplant institutions, hair transplant departments of public hospitals and aesthetic services providers.

We believe our principal competitive advantages are our national coverage and footprint, brand reputation, operational and medical service capabilities, one-stop-shop hair-related healthcare service system, technology, strong management team and shareholder support. For more details of our market position and the competitive landscape of the markets, see "Industry Overview" in this document.

## INSURANCE

In January 2021, we introduced our hair transplant insurance service, which enhances our service coverage for hair transplant patients. We entered into a cooperation agreement with Ping An Property & Casualty Insurance Company of China, Ltd., Liaoning Branch ("**Ping An Property & Casualty**") in December 2020 for the relevant insurance arrangements, salient terms of which are summarized below:

| | |
|---|---|
| Insurer: | Ping An Property & Casualty |
| Policy holder and Insuree: | Yonghe Investment |
| Insured Person: | Each of the patients receiving our ordinary hair transplant surgeries (excluding revision surgeries) |
| Name of the Insurance Plan: | Yonghe & Ping An Hair Transplant Insurance (雍禾&平安植髮險) |

| | |
|---|---|
| Insurance Plan: | If the insured person's hair follicle survival rate falls below 95% within one year after receiving our hair transplant surgery, the insurer shall pay the patient up to RMB20,000 per claim |
| Policy Term: | One year |
| Insurance Premium and Payment: | RMB99.0 per insured person. The insuree shall pay the insurer no less than RMB990,000 per year at the time when the insurer firstly issues the insurance policy, and when the number of insured person expects to exceed 10,000, the insuree shall settle the increased insurance premium monthly based on the number of hair transplant appointments made by our patients to maintain the insurance policy |

As confirmed by Frost & Sullivan, Yonghe & Ping An Hair Transplant Insurance was the first hair transplant insurance plan in the China market. We believe that such arrangements can provide patients who are dissatisfied with the treatment results a way to receive compensation other than through bringing claims against us, thereby alleviating their dissatisfaction and reducing our exposure to potential liabilities arising from disputes over treatment results. In addition, the introduction of such insurance plan to our business operations also demonstrates our confidence and capability to consistently provide quality medical services to our patients.

As of the Latest Practicable Date, we did not maintain a medical liability insurance. According to our PRC Legal Adviser, there is no statutory requirement for our clinics to maintain such insurance coverage, and according to Frost & Sullivan Report, it is not a common industry practice for private hair transplant institutions to maintain medical liability insurance. Considering the relatively low risks of hair transplant surgeries and our comprehensive quality control system, we believe we are able to maintain the occurrence of our medical disputes at a manageable level. However, we cannot assure that we will have sufficient insurance coverage for all liabilities, losses or damages that may arise in our business operations. For more information, see "Risk Factors — Risks Relating to Our Business — Our insurance coverage may be insufficient to cover all risks involved in our business operation" in this document.

During the Track Record Period and up to the Latest Practicable Date, we had not made or been required to make any insurance claims that are material in nature.

## EMPLOYEES

We believe our success depends critically on our ability to attract, develop and retain our employees. We are committed to retaining renowned and influential physicians to maintain our hair transplant services' high quality consistently. As of the Latest Practicable Date, we had a total of 4,374 full-time employees, among which 514 employees work in our headquarters.

The following table sets forth a breakdown of our full-time employees by function as of the Latest Practicable Date. For a detailed breakdown of our professionals at our clinics, see "— Our Professional Team" in this section.

| | As of the Latest Practicable Date |
|---|---|
| Professionals Team | 1,233 |
| Management | 63 |
| Customer Service and Service Consultants | 1,353 |
| Marketing Staff | 716 |
| Administrative and others | 1,009 |
| **Total** | **4,374** |

Each of the clinics in our network directly recruits their employees and generally enters into employment contracts with them. Recruiting is conducted through offline recruitment channels such as professional recruitment websites, internal referrals and campus recruitment.

Our employees typically enter into standard employment contracts with us. Remuneration packages for our employees may comprise one or more of the following elements: base salary, performance-based bonus and discretionary bonus. We set performance targets for our employees based on their positions and departments and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. We offer various employee benefit plans, including housing provident funds, pension, medical, maternity, work-related injuries and unemployment benefits in accordance with applicable laws and regulations.

During the Track Record Period, we also engage labor outsourcing service providers, with whom we have entered into labor outsourcing agreements for provision of housekeeping and security staff. Pursuant to such agreements, these labor outsourcing service providers should outsource to us suitable staff as requested, and we should pay the outsource service fees to the labor outsourcing service providers. The responsibility and liability of wages, social insurance and housing provident fund contributions of staff are borne by the labor outsourcing service providers and not by our Group according to such agreements.

We did not experience significant staff turnover during the Track Record Period or any disruption to our business operations due to labor disputes. As of the Latest Practicable Date, we had complied with all statutory social insurance and housing fund obligations applicable to us under PRC laws and regulations in all material aspects and were not subject to any fines or administrative actions due to non-compliance with any relevant regulations.

## LICENSES, PERMITS, APPROVALS AND COMPLIANCE

Our Directors, as advised by our PRC Legal Adviser, confirm that as of the Latest Practicable Date, we had complied with all relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits that we are required to obtain from relevant regulatory authorities for our operations in China, except as disclosed below.

The following table sets out a list of material licenses, permits and certificates relating to our operations, which include the Business License (營業執照), the Medical Institution Practicing license

(醫療機構執業許可證) the Fire Safety Approval (消防手續) and the Water Discharge License (排水許可證) for each of our 52 clinics in operation in mainland China as of the Latest Practicable Date.

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 1. | Beijing Yonghe | Business License | Chaoyang District Bureau of Market Supervision and Administration of Beijing Municipality | 2033.1.4 |
| | | Medical Institution Practicing License | Chaoyang District Commission of Health and Family Planning of Beijing Municipality | 2021.12.31 |
| | | Fire Safety Approval | Beijing Chaoyang District Public Security Fire Detachment | Long term |
| | | Water Discharge License(1) | Beijing Water Authority | 2025.9.1 |
| 2. | Wenzhou Yonghe | Business License | Lucheng District Bureau of Market Supervision and Administration of Wenzhou Municipality | Long term |
| | | Medical Institution Practicing License | Lucheng District Health Bureau of Wenzhou Municipality | 2024.10.22 |
| | | Fire Safety Approval | Wenzhou Lucheng District Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License | Wenzhou Lucheng District Comprehensive Administrative Law Enforcement Bureau | 2025.11.5 |
| 3. | Chengdu Yonghe | Business License | Wuhou District Administrative Examination and Approval Bureau of Chengdu Municipality | Long term |
| | | Medical Institution Practicing License | Wuhou District Administrative Examination and Approval Bureau of Chengdu Municipality | 2022.12.24 |
| | | Fire Safety Approval | Chengdu Wuhou District Public Security Fire Brigade | Long term |
| | | Water Discharge License(2) | N/A | N/A |
| 4. | Fuzhou Yonghe | Business License | Jin'an District Market Supervision Administration of Fuzhou Municipality | 2069.4.22 |
| | | Medical Institution Practicing License | Jin'an District Health bureau of Fuzhou Municipality | 2023.1.12 |
| | | Fire Safety Approval | Fuzhou Jin'an District Urban-Rural Construction Bureau | Long term |
| | | Water Discharge License(1) | Fuzhou Urban-Rural Construction Bureau | Long term |
| 5. | Guangzhou Yonghe | Business License | Tianhe District Administrative Examination and Approval Bureau of Guangzhou Municipality | Long term |
| | | Medical Institution Practicing License | Tianhe District Health Bureau of Guangzhou Municipality | 2022.11.22 |
| | | Fire Safety Approval | Real Estate Leasing Management Office of Guangdong Military Region | Long term |
| | | Water Discharge License(2) | N/A | N/A |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 6. | Hangzhou Niufeisi | Business License | Xiacheng District Market Supervision Administration of Hangzhou Municipality | Long term |
| | | Medical Institution Practicing License | Xiacheng District Health Bureau of Hangzhou Municipality | 2023.12.8 |
| | | Fire Safety Approval | Hangzhou Public Security Fire Bureau | Long term |
| | | Water Discharge License | Hangzhou City Management Bureau | 2026.3.24 |
| 7. | Nanning Yonghe Clinic | Business License | Qingxiu District ASEAN Market supervision and management Institute of Nanning Municipality | Long term |
| | | Medical Institution Practicing License | Nanning Administrative Examination and Approval Bureau | 2024.3.25 |
| | | Fire Safety Approval | Nanning Public Security Fire Brigade | Long term |
| | | Water Discharge License[(1)] | Nanning Administrative Examination and Approval Bureau | 2023.6.12 |
| 8. | Xuzhou Yonghe | Business License | Yunlong District Administrative Examination and Approval Bureau of Xuzhou Municipality | Long term |
| | | Medical Institution Practicing License | Yunlong District Health Committee of Xuzhou Municipality | 2024.12.29 |
| | | Fire Safety Approval | Xuzhou Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License | Xuzhou Water Authority | 2025.12.30 |
| 9. | Jiaxing Yonghe | Business License | Nanhu District Administrative Examination and Approval Bureau of Jiaxing Municipality | Long term |
| | | Medical Institution Practicing License | Nanhu District Administrative Examination and Approval Bureau of Jiaxing Municipality | 2025.2.19 |
| | | Fire Safety Approval | Jiaxing Nanhu District Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License[(1)] | Jiaxing Nanhu District Administrative Examination and Approval Bureau | 2026.7.6 |
| 10. | Suzhou Yonghe | Business License | Gusu District Administrative Examination and Approval Bureau of Suzhou Municipality | Long term |
| | | Medical Institution Practicing License | Gusu District Civil Affairs and Health Bureau of Suzhou Municipality | 2025.5.20 |
| | | Fire Safety Approval | Not yet obtained | N/A |
| | | Water Discharge License | Suzhou Water Authority | 2026.7.21 |
| 11. | Nanchang Yonghe | Business License | Administrative Examination and Approval Bureau of Nanchang Municipality | Long term |
| | | Medical Institution Practicing License | Administrative Examination and Approval Bureau of Nanchang Municipality | 2025.2.19 |
| | | Fire Safety Approval | Nanchang Honggutan District Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License | Nanchang Honggutan New District Urban Management and Environmental Protection Bureau | 2026.3.16 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 12. | Taizhou Yonghe | Business License | Jiaojiang District Market Supervision Administration of Taizhou Municipality | Long term |
| | | Medical Institution Practicing License | Jiaojiang District Health Bureau of Taizhou Municipality | 2024.11.17 |
| | | Fire Safety Approval | Taizhou Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License | Taizhou Jiaojiang District Urban Administration Bureau | 2026.3.21 |
| 13. | Huizhou Yonghe | Business License | Huicheng District Market Supervision Administration of Huizhou Municipality | Long term |
| | | Medical Institution Practicing License | Huicheng District Health Bureau of Huizhou Municipality | 2025.8.2 |
| | | Fire Safety Approval | Huizhou Huicheng District Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License[(2)] | N/A | N/A |
| 14. | Xi'an Beilin Yonghe | Business License | Beilin District Administrative Examination and Approval Bureau of Xi'an Municipality | Long term |
| | | Medical Institution Practicing License | Beilin District Health Bureau of Xi 'an Municipality | 2025.8.19 |
| | | Fire Safety Approval | Xi'an Beilin District Housing and Urban Construction Bureau | Long term |
| | | Water Discharge License[(2)] | N/A | N/A |
| 15. | Zhengzhou Yonghe | Business License | Jinshui District Market Supervision Administration of Zhengzhou Municipality | Long term |
| | | Medical Institution Practicing License | Jinshui District Health Bureau of Zhengzhou Municipality | 2026.6.12 |
| | | Fire Safety Approval | Zhengzhou Jinshui District Public Security Fire Brigade | Long term |
| | | Water Discharge License | Zhengzhou Urban Administration Bureau | 2026.3.23 |
| 16. | Qingdao Yonghe South Clinic | Business License | Shinan District Market Supervision Administration of Qingdao Municipality | Long term |
| | | Medical Institution Practicing License | Shinan District Health and Family Planning Bureau of Qingdao Municipality | 2023.10.24 |
| | | Fire Safety Approval | Qingdao Public Security Fire Detachment City South District Brigade | Long term |
| | | Water Discharge License | Qingdao Administrative Examination and Approval Service Bureau | 2025.12.6 |
| 17. | Urumqi Yonghe Meidu | Business License | Tianshan District market supervision and Administration Bureau of Urumqi | Long term |
| | | Medical Institution Practicing License | Tianshan District Health Committee | 2026.6.30 |
| | | Fire Safety Approval | Urumqi Construction Bureau | Long term |
| | | Water Discharge License | Tianshan District Water Affairs Bureau of Urumqi | 2026.7.15 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 18. | Guiyang Yonghe | Business License | Nanming District Market supervision Administration of Guiyang Municipality | 2047.9.1 |
| | | Medical Institution Practicing License | Nanming District Health and Family Planning Bureau of Guiyang Municipality | 2025.06.12 |
| | | Fire Safety Approval | Guiyang Public Security Fire Detachment Nanming District Brigade | Long term |
| | | Water Discharge License | Guiyang Nanming District Urban Administration Bureau | 2025.12.7 |
| 19. | Chongqing Yonghe | Business License | Yuzhong District Market Supervision Administration of Chongqing Municipality | Long term |
| | | Medical Institution Practicing License | Yuzhong District Health and Family Planning Commission of Chongqing Municipality | 2023.02.04 |
| | | Fire Safety Approval | Chongqing Yuzhong District Public Security Fire Brigade | Long term |
| | | Water Discharge License[(2)] | N/A | N/A |
| 20. | Shenyang Yonghe | Business License | Heping District Market Supervision Administration of Shenyang Municipality | Long term |
| | | Medical Institution Practicing License | Heping District Administrative Examination and Approval Service Bureau of Shenyang Municipality | 2023.02.06 |
| | | Fire Safety Approval | Shenyang Heping District Public Security Fire Brigade | Long term |
| | | Water Discharge License | Shenyang Heping District Administrative Examination and Approval Bureau | 2026.5.13 |
| 21. | Shijiazhuang Yonghe Qiaoxi Clinic | Business License | Shijiazhuang Qiaoxi District Administrative Examination and Approval Bureau | Long term |
| | | Medical Institution Practicing License | Shijiazhuang Administrative Examination and Approval Bureau | 2024.3.31 |
| | | Fire Safety Approval | Shijiazhuang Qiaoxi District Public Security Fire Brigade | Long term |
| | | Water Discharge License[(2)] | N/A | N/A |
| 22. | Taiyuan Yonghe | Business License | Xiaodian District Administrative Examination and Approval Service Administration of Taiyuan Municipality | 2037.3.22 |
| | | Medical Institution Practicing License | Xiaodian District Administrative Examination and Approval Service Administration of Taiyuan Municipality | 2025.3.29 |
| | | Fire Safety Approval | Not yet obtained | N/A |
| | | Water Discharge License | Taiyuan Administrative Examination and Approval Service Administration | 2026.4.22 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 23. | Tianjin Yonghe | Business License | Hexi District Market Supervision Administration of Tianjin Municipality | 2066.11.9 |
| | | Medical Institution Practicing License | Hexi District Administrative Examination and Approval Bureau of Tianjin Municipality | 2022.8.27 |
| | | Fire Safety Approval | Tianjin Hexi District Public Security Fire Brigade | Long term |
| | | Water Discharge License | Tianjin Water Affairs Bureau | 2025.11.29 |
| 24. | Wuhan Yonghe | Business License | Administrative Examination and Approval Bureau of Jianghan District, Wuhan city | 2067.7.24 |
| | | Medical Institution Practicing License | Administrative Examination and Approval Bureau of Jianghan District, Wuhan city | 2023.4.11 |
| | | Fire Safety Approval | Fire Brigade of Jianghan District Branch of Wuhan Public Security Bureau | Long term |
| | | Water Discharge License | Wuhan Jianghan District Administrative Examination and Approval Bureau | 2026.3.22 |
| 25. | Jinhua Yonghe | Business License | Jindong District Market supervision administration of Jinhua Municipality | Long term |
| | | Medical Institution Practicing License | Jindong District Health Bureau of Jinhua Municipality | 2026.3.10 |
| | | Fire Safety Approval | Jinhua Jindong District Housing and Urban Rural Development Bureau | Long term |
| | | Water Discharge License | Jinhua Jindong District Housing and Urban Rural Development Bureau | 2026.3.21 |
| 26. | Changsha Yonghe Jimei | Business License | Tianxin District Market Supervision Administration of Changsha Municipality | 2070.7.14 |
| | | Medical Institution Practicing License | Tianxin District Health Bureau of Changsha Municipality | 2024.1.27 |
| | | Fire Safety Approval | Changsha Tianxin District Housing and Urban Rural Development Bureau | Long term |
| | | Water Discharge License | Changsha Tianxin District Housing and Urban Rural Development Bureau | 2026.3.26 |
| 27. | Yancheng Yonghe Yannan Clinic | Business License | Market Supervision administration of Yannan Hi-tech Industrial Development Zone of Jiangsu Province | Long term |
| | | Medical Institution Practicing License | Yancheng Municipal Health Commission | 2026.1.13 |
| | | Fire Safety Approval | Housing and Construction Bureau of Yannan High Tech Industrial Development Zone of Jiangsu Province | Long term |
| | | Water Discharge License | Yancheng Housing and Urban Rural Development Bureau | 2025.8.6 |
| 28. | Ningbo Yonghe | Business License | Yinzhou District Market Supervision Administration of Ningbo Municipality | Long term |
| | | Medical Institution Practicing License | Yinzhou District Health Bureau of Ningbo Municipality | 2024.6.30 |
| | | Fire Safety Approval | Yinzhou District Brigade of Ningbo Public Security Fire Brigade | Long term |
| | | Water Discharge License | Ningbo Yinzhou District Water Resources Bureau | 2026.1.11 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 29. | Dongguan Yonghe | Business License | Dongguan Market Supervision And Administration Bureau | Long term |
| | | Medical Institution Practicing License | Dongguan Municipal Health Bureau | 2026.9.22 |
| | | Fire Safety Approval | Dongcheng Brigade of Dongguan Public Security Fire Bureau | Long term |
| | | Water Discharge License | Dongguan Ecological Environment Bureau | 2026.4.25 |
| 30. | Hefei Yonghe | Business License | Hefei High-tech Development Zone Market Supervision Administration | Long term |
| | | Medical Institution Practicing License | Hefei Municipal Health and Family Planning Commission | 2023.10.19 |
| | | Fire Safety Approval | Public Security Fire Brigade of Hefei High Tech Industrial Development Zone | Long term |
| | | Water Discharge License[(2)] | N/A | N/A |
| 31. | Quanzhou Yonghe | Business License | Quanzhou Administration for Industry and Commerce Fengze branch | Long term |
| | | Medical Institution Practicing License | Quanzhou Fengze District Health and Family Planning Bureau | 2024.8.8 |
| | | Fire Safety Approval | Not yet obtained | N/A |
| | | Water Discharge License | Quanzhou City Urban Administration Bureau | 2026.5.25 |
| 32. | Dalian Yonghe | Business License | Xigang District Market Supervision Administration of Dalian Municipality | 2048.5.21 |
| | | Medical Institution Practicing License | Xigang District Health and Family Planning Bureau of Dalian Municipality | 2023.11.4 |
| | | Fire Safety Approval | Dalian Xigang Public Security Fire Brigade | Long term |
| | | Water Discharge License | Dalian Xigang District Urban Management Comprehensive Administrative Law Enforcement Bureau | 2026.8.16 |
| 33. | Kunshan Yonghe | Business License | Kunshan Market Supervision and Administration Bureau | 2068.5.28 |
| | | Medical Institution Practicing License | Kunshan Health Commission | 2024.1.21 |
| | | Fire Safety Approval | Kunshan Public Security Fire Brigade | Long term |
| | | Water Discharge License | Kunshan Water Affairs Bureau | 2025.12.29 |
| 34. | Harbin Yonghe | Business License | Nangang District Market Supervision administration of Harbin City | Long term |
| | | Medical Institution Practicing License | Nangang District Health and Family Planning Bureau of Harbin City | 2023.10.22 |
| | | Fire Safety Approval | Online filing acceptance system | Long term |
| | | Water Discharge License | Harbin Nangang District Housing and Urban-Rural Development Bureau | 2026.4.6 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 35. | Lanzhou Yonghe Chengguan Clinic | Business License | Lanzhou City Administration for Industry and Commerce Chengguan Branch | Long term |
| | | Medical Institution Practicing License | Chengguan District Health Bureau of Lanzhou City | 2022.5.4 |
| | | Fire Safety Approval | Lanzhou Chengguan District Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License | Not yet obtained | N/A |
| 36. | Wuxi Yonghe | Business License | Liangxi District Administrative Examination and Approval Bureau of Wuxi City | Long term |
| | | Medical Institution Practicing License | Liangxi District Health Committee of Wuxi City | 2024.4.9 |
| | | Fire Safety Approval | Wuxi Liangxi district housing and Urban Rural Development Bureau | Long term |
| | | Water Discharge License[(1)] | Wuxi Municipal and Garden Bureau | 2026.6.9 |
| 37. | Nantong Yonghe | Business License | Nantong Administrative Examination and Approval Bureau | Long term |
| | | Medical Institution Practicing License | Chongzhou District Health and Family Planning Commission of Nantong City | 2024.6.30 |
| | | Fire Safety Approval | Nantong Public Security Fire Brigade | Long term |
| | | Water Discharge License | Nantong Municipal and Garden Bureau | 2025.12.10 |
| 38. | Foshan Yonghe | Business License | Chancheng District Market Supervision Administration of Foshan City | Long term |
| | | Medical Institution Practicing License | Chancheng District Health Bureau of Foshan City | 2025.9.11 |
| | | Fire Safety Approval | Foshan Chancheng District Bureau of Housing, Urban Rural Development and Water Conservancy | Long term |
| | | Water Discharge License[(2)] | N/A | N/A |
| 39. | Zhuhai Yonghe | Business License | Xiangzhou District Market Supervision Administration of Zhuhai City | Long term |
| | | Medical Institution Practicing License | Health bureau of Xiangzhou District, Zhuhai city | 2024.9.19 |
| | | Fire Safety Approval | Zhuhai Municipal Bureau of housing and urban-rural development | Long term |
| | | Water Discharge License | Zhuhai Xiangzhou District Urban Management and Comprehensive Law Enforcement Bureau | 2026.4.12 |
| 40. | Jinan Yonghe Licheng Clinic | Business License | Administrative Examination and Approval Service Bureau of Licheng District, Jinan | Long term |
| | | Medical Institution Practicing License | Administrative Examination and Approval Service Bureau of Licheng District, Jinan | 2025.3.16 |
| | | Fire Safety Approval | Jinan Licheng District Fire Rescue Brigade | Long term |
| | | Water Discharge License | Licheng District Urban-Rural Water Bureau of Jinan | 2026.4.14 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 41. | Zhongshan Yonghe | Business License | Zhongshan Market Supervision and Administration Bureau | Long term |
| | | Medical Institution Practicing License | Zhongshan Health Bureau | 2025.10.8 |
| | | Fire Safety Approval | Zhongshan Municipal Bureau of Housing and Urban-Rural Development | Long term |
| | | Water Discharge License | Zhongshan Water Affairs Bureau | 2026.7.4 |
| 42. | Changzhou Yonghe | Business License | Changzhou National High-tech Industry Development Zone (New North District) Administrative Examination and Approval Bureau | Long term |
| | | Medical Institution Practicing License | Changzhou National High-tech Industry Development Zone (New North District) Administrative Examination and Approval Bureau | 2025.10.19 |
| | | Fire Safety Approval | Housing and Urban Rural Development Bureau of Changzhou National High tech Industrial Development Zone | Long term |
| | | Water Discharge License[(1)] | Changzhou Urban Rural Development Bureau | 2022.8.14 |
| 43. | Zhanjiang Yonghe | Business License | Market Supervision Administration of Zhanjiang Economic and Technological Development Zone | Long term |
| | | Medical Institution Practicing License | Zhanjiang Development Zone Administration of Population and Social Affairs | 2025.9.24 |
| | | Fire Safety Approval | Housing, Planning and Construction Bureau of Zhanjiang Economic and technological Development Zone | Long term |
| | | Water Discharge License | Zhanjiang Municipal Bureau of Housing and Urban-Rural Development | 2026.2.24 |
| 44. | Foshan Yonghe Meidu Shunde Clinic | Business License | Shunde District Market Supervision Administration of Foshan City | Long term |
| | | Medical Institution Practicing License | Shunde District Health Bureau of Foshan City | 2025.11.22 |
| | | Fire Safety Approval | Foshan Shunde District Housing Urban-Rural Construction and Water Conservancy Bureau | Long term |
| | | Water Discharge License | Foshan Shunde District Housing Urban-Rural Construction and Water Conservancy Bureau | 2024.4.21 |
| 45. | Luoyang Yonghe | Business License | Luolong District Market Supervision Administration of Luoyang City | Long term |
| | | Medical Institution Practicing License | Luolong District Health Committee of Luoyang City | 2026.2.6 |
| | | Fire Safety Approval | Luoyang Housing and Urban-Rural Development Bureau | Long term |
| | | Water Discharge License | Luoyang City Urban Administration Bureau | 2026.3.18 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 46. | Shanghai Yonghe | Business License | Huangpu District Market Supervision Administration of Shanghai Municipality | 2022.1.31 |
| | | Medical Institution Practicing License | Huangpu District Health and Family Planning Commission of Shanghai Municipality | 2022.7.23 |
| | | Fire Safety Approval | Not yet obtained | N/A |
| | | Water Discharge License | Not yet obtained | N/A |
| 47. | Xiamen Yonghe | Business License | Siming District Market Supervision Administration of Xiamen City | 2066.11.30 |
| | | Medical Institution Practicing License | Siming District Health Bureau of Xiamen City | 2023.2.2 |
| | | Fire Safety Approval | Siming District Brigade of Xiamen Public Security Fire Detachment | Long term |
| | | Water Discharge License | Xiamen Siming District Environmental Protection Bureau | 2026.1.2 |
| 48. | Shenzhen Yonghe | Business License | Market Supervision Administration of Shenzhen Municipality | Long term |
| | | Medical Institution Practicing License | Futian District Health and Family Planning Bureau of Shenzhen Municipality | 2023.11.29 |
| | | Fire Safety Approval | Futian District Brigade of Shenzhen Public Security Fire Detachment | Long term |
| | | Water Discharge License | Futian District Water Bureau of Shenzhen | 2025.12.21 |
| 49. | Nanjing Yonghe | Business License | Qinhuai District Market Supervision administration of Nanjing city | Long term |
| | | Medical Institution Practicing License | Qinhuai District Health and Family Planning Bureau of Nanjing City | 2023.7.19 |
| | | Fire Safety Approval | Qinhuai District Brigade of Nanjing Public Security Fire Brigade | Long term |
| | | Water Discharge License | Nanjing Qinhuai District administrative examination and approval Bureau | 2025.11.29 |
| 50. | Hangzhou Yonghe Meidu | Business License | Gongshu District Market supervision administration of Hangzhou City | Long term |
| | | Medical Institution Practicing License | Health and Family Planning Bureau of Gongshu District, Hangzhou | 2023.10.23 |
| | | Fire Safety Approval | Gongshu District Brigade of Hangzhou Public Security Fire Detachment | Long term |
| | | Water Discharge License | Hangzhou Municipal Urban Administration Bureau | 2026.2.1 |

| | Holding Entity | License/Permit/Certificate | Issuing Authority | Expiry Date |
|---|---|---|---|---|
| 51. | Kunming Yonghe | Business License | Wuhua District Market Supervision Administration of Kunming City | 2038.7.3 |
| | | Medical Institution Practicing License | Wuhua District Health and Family Planning Bureau of Kunming City | 2024.3.14 |
| | | Fire Safety Approval | Wuhua District Housing and Urban-Rural Development Bureau of Kunming | Long term |
| | | Water Discharge License | Wuhua District Housing and Urban-Rural Development Bureau of Kunming | 2026.6.24 |
| 52 | Haikou Yonghe | Business License | Hainan Provincial Market Supervision Administration | Long term |
| | | Medical Institution Practicing | Haikou Meilan District Health Committee | 2026.6.14 |
| | | Fire Safety Approval | Bureau of Housing and Urban-Rural Development of Meilan District, Haikou | Long term |
| | | Water Discharge License | Meilan District Water Bureau of Haikou | 2026.7.7 |

*Notes:*

(1) As confirmed by the competent authority, the property owner (instead of our clinic) shall apply for the water discharge license for the whole building in which our clinic is located, and the property owner had already obtained the water discharge license.

(2) As confirmed by the competent authority, the property owner (instead of our clinic) shall apply for the water discharge license for the whole building in which our clinic is located, but the property owner had not yet obtained the water discharge license.

We intend to apply for renewal of the above material licenses prior to their respective expiry dates. The successful renewal of our existing licenses, permits and certificates will be subject to our fulfilment of relevant requirements. As of the Latest Practicable Date, our Directors were not aware of any reason that would cause or lead to the non-renewal of such licenses, permits and certificates. As advised by our PRC Legal Adviser, as of the Latest Practicable Date, there was no legal impediment for us to renew these licenses, permits and certificates as long as we comply with the relevant legal requirements.

## Non-Compliances

During the Track Record Period and up to the Latest Practicable Date, we experienced certain non-compliance incidents, including failure to obtain, or to promptly update, certain licenses and permits necessary for the operation of some of our clinics, and non-compliances relating to the Advertisement Law of the PRC. The details of which are set forth in the table below:

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| **Began trial operation for some of our clinics prior to obtaining, or promptly updating, the Medical Institution Practicing Licenses (醫療機構執業許可證)** | | | |
| In 2018 and 2019, ten of our clinics began their trial operation after obtaining their business licenses (營業執照), but prior to obtaining, or promptly updating, the Medical Institution Practicing Licenses (醫療機構執業許可證). | (i) With respect to nine of such clinics, the non-compliance incidents were resulting from inadvertent oversight by the local management teams of the relevant clinics previously in charge of supervising the compliance status of such clinics, who mistakenly believed that since hair transplant clinics are not expressly listed as medical institutions under applicable laws and regulations and the clinics can start trial operation so long as they have obtained the business licenses.<br><br>(ii) With respect to one of such clinics, it started its trial operation in November 2012, after obtaining its Business License and the Medical Institution Practicing License. However, its original Medical Institution Practicing License expired in November 2017, and the local management team of the clinic forgot to timely renew such license in time due to an inadvertent oversight.<br><br>The foregoing oversight was not a result of any willful misconduct by our Directors or any of our employees, but did reflect insufficiencies in our internal control measures adopted at the time, which insufficiencies contributed to our failure to prevent and to timely detect such non-compliances. We took prompt remedial and/or rectification measures as soon as we identified such non-compliances, and had fully resolved such non-compliances without suffering any material negative impact in relation thereto. We had also adopted enhanced internal control measures in this regard to prevent the recurrence of similar non-compliances. Please refer to the fourth column for more information. | According to our PRC Legal Adviser, pursuant to the Regulations on the Management of Medical Institutions (醫療機構管理條例) promulgated by the State Council, if a clinic began operation prior to obtaining, or promptly updating, the Medical Institution Practicing Licenses, the maximum penalty is (i) confiscation of the illegal income (i.e., those generated prior to obtaining the Medical Institution Practicing License or during the period the licenses were expired and not updated); (ii) confiscation of the relevant medicines and medical devices used; and (iii) an administrative penalty of up to RMB10,000.<br><br>During the Track Record Period, we were penalized for four of such clinics, and incurred penalties or confiscation of income in an aggregated amount of approximately RMB0.33 million. All of the penalties or confiscation of income had been fully settled, and our PRC Legal Adviser is of the view that the risk that we be penalized again for the same matter is remote. | With respect to the nine clinics set forth in (i) the second column, all of them had obtained the Medical Institution Practicing Licenses within the same year that they began their trial operation. In fact, substantially all of them obtained the Medical Institution Practicing Licenses within a few weeks, or even days, after they began their trial operation.<br><br>With respect to the clinic set forth in (ii) in the second column, it successfully renewed the Medical Institution Practicing License in July 2018, promptly after we identified the oversight in June 2018.<br><br>To prevent similar incidents from occurring again, we have adopted the following internal control measures:<br><br>• We adopted more stringent requirements and procedures for new clinic openings, especially in the area of obtaining all the necessary licenses and permits in compliance with the applicable laws and regulations;<br><br>• We have updated our licenses and permits management policy to monitor and manage the license application and renewal processes for our clinics; |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| | | With respect to the six clinics that we did not receive administrative penalties, all the relevant non-compliances occurred, and were fully rectified, over two years ago as of the Latest Practicable Date. As advised by our PRC Legal Adviser, pursuant to the Administrative Penalty Law of the PRC (中華人民共和國行政處罰法), for non-compliances that had been rectified for over two years and were not penalized, the competent authorities shall not impose any penalties for such historical non-compliances. Therefore, our PRC Legal Adviser is of the view that the risk that the we be penalized for such historical non-compliances is remote.<br><br>Our Directors believe that such penalties, even in the aggregate, did not and would not have any material adverse effect on our business operation and financial position. | • We have provided, and will continue to provide, various training programs to all of our employees about the applicable laws and regulations in relation to the operation of our clinics, with particular focuses on the necessary licenses and permits that we need to obtain prior to operating the clinics;<br><br>• We have established a regulatory compliance committee at the Group level, which is headed by Mr. Zhang, our founder and chief executive officer, and comprised seven Directors and/or senior officers of our Group, including Mr. XU Yang, our operation director, Ms. HAN Zhimei, our finance director, and Mr. ZHANG Hui, our Procurement director, among others. We require our regulatory compliance committee to closely monitors the compliance status of our headquarters as well as the local clinics, to keep the records of their reviewing and monitoring processes, and to report to our Board of Directors on a monthly basis with respect to its findings. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| **Failure to complete the necessary fire safety procedures with respect to some of our clinics** | | | |
| As of the end of the Track Record Period, we had not obtained the required fire safety approvals for a total of twelve clinics. | Among these twelve clinics, there were:<br>(i) one clinic in Shanghai for which we were not able to complete the required fire safety approvals despite of exercising reasonable best efforts seeking to obtain such approvals, because of practical difficulties outside of our control, i.e., the owner of the entire property where our clinic is located did not complete the required fire safety procedures, and the relevant local authority will not issue the fire safety approvals to us on a standalone basis;<br>(ii) two clinics in Urumqi and Xi'an for which we had ceased operation as of August 1, 2021 and August 6, 2021, respectively, and it was impracticable for us to obtain the fire safety approvals for closed clinics; and<br>(iii) nine clinics for which we had submitted or were in the process of completing the applications for the required fire safety approvals, but had not obtained the relevant approvals despite of exercising reasonable best efforts, as of the end of the Track Record Period. As of the Latest Practicable Date, we had submitted the applications for the required fire safety approvals for all these clinics, and had completed the relevant fire safety approvals for six of them. Please refer to the fourth column for more details of the latest status of our rectification efforts with respect to these clinics. | With respect to the one clinic set forth in (i) in the previous column, we, together with our PRC Legal Adviser, made inquiries with the local competent authorities, and the relevant local competent authorities confirmed that we are allowed to continue the operation of the clinic and they would not impose any administrative penalties on us because of such non-compliance incident. In 2018, 2019, 2020 and the six months ended June 30, 2021, the revenue contributed by this clinic amounted to RMB53.4 million, RMB61.7 million, RMB77.5 million and RMB44.1 million, respectively. The gross profit for this clinic amounted to RMB43.2 million, RMB50.0 million, RMB64.3 million and RMB34.1 million, respectively, for the same periods. As set out in the next column, we plan to relocate the clinic to another location in the same city, and to close the non-compliant clinic, in December 2021. The new clinic is currently under renovation and would be larger than the old clinic, and we expect to generate more revenue from the new clinic. We do not expect to incur significant costs as a result of such relocation. | With respect to the one clinic set forth in (i) in the second column, we currently plan to relocate the clinic to another location in the same city, and to close the non-compliant clinic, in December 2021. We did not close such clinic earlier because we had been using our commercially reasonable efforts to push the property owner to complete the required fire safety procedures for the entire building. After receiving confirmation from the property owner that they do not expect to complete the necessary procedures for the entire building any time soon, and receiving confirmation from the relevant competent authorities that they will not issue the fire safety approvals to us on a standalone basis, and also considering the difficulties in obtaining the required fire safety approval for this clinic as set forth below, we decided to close this clinic. It generally takes around a quarter for us to complete the deregistration and closure procedures. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | We became aware of such non-compliance incidents during our company-wide compliance reviews. We commenced our operation at the twelve clinics prior to obtaining the required fire safety approvals primarily due to the evolving and varied requirements and practices on the relevant fire safety procedures adopted by the local governmental authorities of different cities in China where our clinics are located, which resulted in misunderstanding of the applicable local requirements and practices by certain of our employees at the local clinics who were previously in charge of completing the relevant fire safety procedures.<br><br>The foregoing oversight was not a result of any willful misconduct by our Directors or any of our employees, but did reflect insufficiencies in our internal control measures adopted at the time, which insufficiencies contributed to our failure to prevent and to timely detect such non-compliances. We took prompt remedial and/or rectification measures as soon as we identified such non-compliances, and had made significant progresses resolving such non-compliances. However, despite our reasonable best efforts, as of the Latest Practicable Date, there were still a small number of such non-compliances remain unresolved, for reasons outside of our control. We had nevertheless adopted enhanced internal control measures in this regard to prevent the recurrence of similar non-compliances. Please refer to the fourth column for more information. | With respect to the two clinics set forth in (ii) in the previous column, as advised by our PRC Legal Adviser, our maximum exposure for the non-compliances is a penalty in an amount of up to RMB0.31 million. In 2018, 2019, 2020 and the six months ended June 30, 2021, the aggregate revenue contributed by these two clinics amounted to RMB45.5 million, RMB65.5 million, RMB54.2 million and RMB18.2 million, respectively. The gross profit for these two clinics amounted to RMB34.8 million, RMB51.9 million, RMB44.3 million and RMB14.7 million, respectively, for the same periods. As set out in the next column, we had relocated these two clinics as of the Latest Practicable Date. The new clinics are larger than the old clinics, and we expect to generate more revenue from the new clinics. We did not incur significant costs as a result of such relocation. | With respect to the two clinics set forth in (ii) in the second column, we had ceased their operation, and have relocated the clinics to other locations in the same cities, as of the Latest Practicable Date.<br><br>With respect to the nine clinics set forth in (iii) in the second column, we are in the process of completing the necessary procedures as soon as possible. During the period between the end of the Track Record Period and the Latest Practicable Date, we had obtained the required fire safety approvals for six additional clinics. We currently expect to obtain the required fire safety approvals for two of the three remaining clinics in February 2022 and the last one in March 2022. As advised by our PRC Legal Adviser, there is no material legal impediment for us to obtain the required approvals and licenses for the remaining clinics as long as we comply with the relevant legal requirements.<br><br>With respect to each of these three remaining clinics (in fact, also with respect to one other clinic that we had already completed the necessary fire safety procedures as of the Latest Practicable Date and with respect to the clinic set forth in (i) in the second column), we engaged a third party fire safety consultant to conduct fire safety inspections on it (collectively, the "**Fire Safety Consultants**"). Each of the Fire Safety Consultants we engaged is a professional fire safety inspection institution holding the relevant qualifications and having a dedicated inspection team consisting of certified fire safety specialists. The Fire |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | | | Safety Consultants conducted comprehensive review and inspection on our clinics through on-site inspection, surveys and document review. The aspects inspected by the Fire Safety Consultants included, among others, (i) the compliance of our fire protection system with applicable regulations and industry standards, (ii) the adequacy and reliability of the fire safety equipment and systems installed in our clinics (including fire alarm systems, fire extinguishing systems, smoke removal systems, lighting systems, water supply, power supply, etc.), (iii) the adequacy and reliability of the emergency evacuation equipment in the premises where our clinics are located, and (iv) the fire protection and heat insulation capabilities of the construction materials we used in our clinics. Each of our clinics passed the relevant inspection. Upon completion of their respective inspection, each of the Fire Safety Consultants issued a fire safety inspection report, and was of the view that the relevant clinic inspected by it has installed fire protection systems and adopted fire safety procedures in compliance with applicable laws and regulations and industry standards, and the relevant fire safety equipment and systems installed were adequate and reliable. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | | With respect to the nine clinics set forth in (iii) in the previous column, we had either obtained written confirmations from, or made inquiries with, the relevant local competent authorities, for eight of them. As advised by our PRC Legal Adviser, based on, among others, the relevant confirmations and inquiry results, the risk that the relevant local competent authorities imposing any material administrative penalties on us, or requiring the relevant clinics to suspend or terminate their business operations is remote. In 2018, 2019 and 2020, aggregate revenue contributed by these eight clinics amounted to RMB27 million, RMB76 million and RMB200 million, respectively.<br><br>With respect to the remaining one clinic, as advised by our PRC Legal Adviser, our maximum exposure for the non-compliance is (a) a penalty in an amount of up to RMB5,000, and (b) closure of the clinic. In 2018, 2019 and 2020, the revenue contributed by this clinic amounted to RMB4 million, RMB17 million and RMB26 million, respectively. If we were required by the competent authorities to close such non-compliant clinic, we may suffer revenue loss as a result of such closure, may need to terminate the lease for the existing clinic and incur contractual penalties, and may forfeit our deposit and certain portion of the paid rents. | Despite our failure to complete in time the necessary fire safety procedures during the Track Record Period, we nonetheless placed significant importance on in-store fire safety, with a goal to mitigate our risk exposure to potential fire safety accidents and public safety concerns. To this end, we had taken a series of internal control measures, which include (i) engaging professional fire protection engineers to identify risks and design safeguards that aid in preventing, controlling and mitigating the effects of fires when building new clinics, (ii) devising a fire safety plan with guidance on the use of building and decoration materials and electrical appliances, standard operation procedures in case of fire alarm and proper evacuation plan, (iii) installing the necessary fire safety equipment as required by applicable PRC laws and regulations, including fire extinguishers, smoke detectors and automatic water spray, and (iv) applying fire resistant construction and decoration materials, installing proper evacuation route indication signs and where applicable, proper emergency exits. Due to such internal control measures on fire safety, we passed the subsequent regular and/or random fire safety inspections by the relevant governmental authorities that all of our clinics are subject to, without being imposed on any material administrative penalties or fines, during the Track Record Period and up to the Latest Practicable Date. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | | As advised by our PRC Legal Adviser, each of the authorities we obtained written confirmations from or made inquiries with is a competent authority, according to the *Fire Prevention Law of the PRC* (中華人民共和國消防法), the *Interim Regulations on Administration of Examination and Acceptance of Fire Control Design of Construction Projects* (建設工程消防設計審查驗收管理暫行規定), and the information set forth on the official websites of such authorities.<br><br>Our Directors believe that such non-compliance incidents would not have a material adverse effect on our business, results of operations or financial condition or the [**REDACTED**], on the grounds that: (i) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date because of such non-compliances, (ii) the maximum potential penalty of approximately RMB0.31 million accounted for less than 0.02% of our revenue in 2020; and (iii) we have enhanced our internal control measures and procedures to prevent the reoccurrence of such non-compliance incidents. | Furthermore, we have enhanced our internal control measures and procedures with respect to fire safety to manage associated risks and prevent the reoccurrence of such non-compliance incidents. Set forth below are key efforts we have made with respect to fire safety, in addition to those measures discussed in "— Began trial operation for some of our clinics prior to obtaining the Medical Institution Practicing Licenses (醫療機構執業許可證)" above:<br><br>• *Fire safety policies*. We have established our in-store fire safety management policies, which unify the fire safety practice at every clinic throughout our network. Our heightened in-store fire safety management policies provide detailed guidance on the use and maintenance of fire safety facilities. According to the heightened in-store fire safety management policies, every clinic shall make plans for fire safety work and conduct fire safety inspection on a regular basis.<br><br>• *Employee trainings*. We provide regular trainings on fire safety to our in-store staff and other employees, which cover key aspects of our daily operations. We also organize fire drills on a regular basis to increase our employees' fire safety awareness. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | | | • *Management of licenses and certificates*. We have devised our license and certificate management policies, which govern the applications for the required as-built acceptance check on fire prevention or fire safety filing or the fire safety inspections, as the case may be, among other things. The license and certificate management policies explicitly require every new clinic to be opened only after the required fire safety approvals have been detained.<br><br>• *Designated personnel*. According to our license and certificate management policies, we designate dedicated personnel to manage licenses and certificates required for our business operation, who are responsible for managing the use of licenses and certificates, monitoring their status and renewing those near to expire in a timely manner. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| **Failure to obtain the water discharge licenses with respect to some of our clinics** | | | |
| As of the end of the Track Record Period, we were not able to obtain the water discharge licenses that we are required to obtain from relevant regulatory authorities for a total of seven clinics. | Among these seven clinics, there were:<br>(i) one clinic in Shanghai for which we were not able to obtain the required water discharge licenses despite of exercising reasonable best efforts seeking to obtain such licenses, because of practical difficulties outside of our control, i.e., the building where our clinic is located was constructed years ago and cannot install the relevant water discharge facilities in line with current laws and regulations;<br>(ii) two clinics in Xi'an and Changsha for which we had ceased operation as of the Latest Practicable Date, and it is impracticable for us to obtain the required water discharge licenses for closed clinics; and<br>(iii) four clinics for which we had submitted or were in the process of completing the applications for the required water discharge licenses, but had not obtained the relevant licenses despite of exercising reasonable best efforts, as of the end of the Track Record Period. As of the Latest Practicable Date, we had submitted the applications for the required water discharge licenses for all these clinics, and had obtained the water discharge licenses for three of them. Please refer to the fourth column for more details of the latest status of our rectification efforts with respect to these clinics. | As advised by our PRC Legal Adviser, with respect to the one clinic set forth in (i) in the previous column, our maximum exposure for the non-compliance is a penalty in an amount of up to RMB0.5 million. In 2018, 2019, 2020 and the six months ended June 30, 2021, the revenue contributed by this clinic amounted to RMB53.4 million, RMB61.7 million, RMB77.5 million and RMB44.1 million, respectively. The gross profit for this clinic amounted to RMB43.2 million, RMB50.0 million, RMB64.3 million and RMB34.1 million, respectively, for the same periods. As set out in the next column, we plan to relocate the clinic to another location in the same city, and to close the non-compliant clinic, in December 2021. The new clinic is currently under renovation and would be larger than the old clinic, and we expect to generate more revenue from the new clinic. We do not expect to incur significant costs as a result of such relocation.<br><br>As advised by our PRC Legal Adviser, with respect to each of the two clinics set forth in (ii) in the previous column, our maximum exposure for the non-compliance is a penalty in an amount of up to RMB0.5 million. In 2018, 2019, 2020 and the six months ended June 30, 2021, the aggregate revenue contributed by these two clinics amounted to RMB55.6 million, RMB66.9 million, RMB74.2 million and RMB11.1 million, respectively. The gross profit for these two clinics amounted to RMB43.3 million, RMB53.0 million, RMB61.9 million and RMB8.4 million, respectively, for the same periods. | With respect to the one clinic set forth in (i) in the second column, we currently plan to relocate the clinic to another location in the same city, and to close the non-compliant clinic in December 2021. We did not close such clinic earlier because we had been using our commercially reasonable efforts to push the property owner to install the relevant water discharge facilities in line with current laws and regulations. After receiving confirmation from the property owner that the building was constructed years ago and cannot install the relevant water discharge facilities, and considering the difficulties in completing the necessary fire safety procedures for this clinic as set forth above, we decided to close this clinic. It generally takes around a quarter for us to complete the deregistration and closure procedures.<br><br>With respect to the two clinics set forth in (ii) in the second column, we had ceased their operation, and have relocated the clinics to other locations in the same cities as of the Latest Practicable Date. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| **Failure to obtain the water discharge licenses with respect to some of our clinics** | | | |
| | We became aware of such non-compliance incidents during our company-wide compliance reviews. We commenced our operation at the seven clinics before we obtain the required water discharge licenses primarily due to the evolving and varied requirements and practices on applying and issuing the water discharge licenses adopted by the local governmental authorities of different cities in China where our clinics are located, which resulted in misunderstanding of the applicable local requirements and practices by certain of our employees at the local clinics who were previously in charge of obtaining the required water discharge licenses.<br><br>The foregoing non-compliances were not a result of any willful misconduct by our Directors or any of our employees, but did reflect insufficiencies in our internal control measures adopted at the time, which insufficiencies contributed to our failure to prevent and to timely detect such non-compliances. We took prompt remedial and/or rectification measures as soon as we identified such non-compliances, and had made significant progresses resolving such non-compliances. However, despite our reasonable best efforts, as of the Latest Practicable Date, there were still a small number of such non-compliances remain unresolved, for reasons outside of our control. We had nevertheless adopted enhanced internal control measures in this regard to prevent the recurrence of similar non-compliances. Please refer to the fourth column for more information. | With respect to the four clinics set forth in (iii) in the previous column, we had either obtained written confirmations from, or made inquiries with, the relevant local competent authorities, for all of them.<br><br>As advised by our PRC Legal Adviser, based on, among others, the relevant confirmations and inquiry results, the risk that the relevant local competent authorities imposing any material administrative penalties on us is remote. In 2018, 2019 and 2020, the aggregate revenue contributed by these four clinics amounted to RMB3 million, RMB16 million and RMB48 million, respectively. As advised by our PRC Legal Adviser, each of the authorities we obtained written confirmations from or made inquiries with is a competent authority, according to the *Measures for the Administration of Permits for the Discharge of Urban Sewage into the Drainage Network* (城鎮污水排入排水管網許可管理辦法) and the information set forth on the official websites of such authorities. | With respect to the four clinics set forth in (iii) in the second column, we are in the process of completing the necessary procedures as soon as possible. During the period between the end of the Track Record Period and the Latest Practicable Date, we had obtained the required water discharge licenses for three additional clinics. We currently expect to obtain the required water discharge licenses for the remaining one clinic in March 2022, and in any event no later than by the end of the first quarter of 2022. As advised by our PRC Legal Adviser, there is no material legal impediment for us to obtain the required approvals and licenses for the remaining clinic as long as we comply with the relevant legal requirements.<br><br>Furthermore, we have enhanced our internal control measures and procedures with respect to water discharge to manage associated risks and prevent the reoccurrence of such non-compliance incidents. Set forth below are key efforts we have made with respect to water discharge licenses, in addition to those measures discussed in "— Began trial operation for some of our clinics prior to obtaining the Medical Institution Practicing Licenses (醫療機構執業許可證)" above:<br><br>• *Employee trainings*. We provide regular trainings on water discharge to our in-store staff and other employees, which cover key aspects of our daily operations. We also organize legal trainings on a regular basis to enhance our employees' compliance awareness. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | | Our Directors believe that such non-compliance incidents would not have a material adverse effect on our business, results of operations or financial condition or the [**REDACTED**], on the grounds that: (i) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date because of such non-compliances, (ii) the maximum potential penalty of RMB1.0 million accounted for less than 0.06% of our revenue in 2020; and (iii) we have enhanced our internal control measures and procedures to prevent the reoccurrence of such non-compliance incidents. | • *Management of licenses and certificates*. We have devised our license and certificate management policies, which govern the applications for the required water discharge licenses. The license and certificate management policies explicitly require every new clinic to be opened only after the required water discharge license is obtained.<br><br>• *Designated personnel*. According to our license and certificate management policies, we designate dedicated personnel to manage the licenses and certificates required for our business operation, who are responsible for managing the use of the licenses and certificates, monitoring their status and renewing those near to expire in a timely manner. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| **Non-Compliances relating to the Advertisement Law of the PRC and/or the Administrative Measures of Medical Advertisements** | | | |
| During the Track Record Period, we experienced a number of isolated non-compliance incidents relating to our failure to comply with *the Advertisement Law of the PRC* (中華人民共和國廣告法) and/or the *Administrative Measures of Medical Advertisements* (醫療廣告管理辦法). | Similar to other companies in the consumer healthcare industry, and the hair-related healthcare industry in particular, we rely heavily on promotions, advertisements and online marketing activities to educate the potential customers of our services, and to promote our brand and services. However, medical advertising and promotions are heavily and strictly regulated in the PRC. The applicable laws and regulations were subject to frequent changes, and the interpretation of applicable laws and regulations by local governmental authorities vary greatly, which resulted in misunderstanding of the applicable local requirements and practices by certain of our employees previously in charge of our compliance work in this regard. As a result, we experienced a number of isolated non-compliance incidents.<br><br>Specifically, (i) our Beijing headquarters was fined twice in 2018, primarily for (a) posting advertisements containing false, misleading information, or overly extreme, (b) posting advertisements containing images of real patients, and (c) posting advertisements prior to completing the necessary governmental review process, and paid penalties in an amount of RMB800,000 and approximately RMB1.8 million, respectively. | As advised by our PRC Legal Adviser, according to the Administrative Measures of Medical Advertisements, with respect to unspecified non-compliances with the applicable advertisement laws, the penalty amount for each violation shall generally be between RMB10,000 to RMB30,000.<br><br>With respect to certain specified non-compliances, such as the incidents of our Beijing headquarters set forth in (i)(a) in the previous column, the penalty amounts were calculated based on the following formula: for immaterial violations, the penalty amount shall be between 1-3 times of the expenses actually incurred for the relevant non-compliant advertisement; but if the expenses incurred was not readily determinable or were obviously low, the penalty amount shall be between RMB200,000 to RMB1 million; for repeated violations (more than three times in two years) or material violations, the penalty amount shall be between 5-10 times of the expenses actually incurred for the relevant non-compliant advertisement; but if the expenses incurred was not readily determinable or were obviously low, the penalty amount shall be between RMB1 million to RMB2 million. In addition, for material violations, the competent authorities can revoke the business license, the medical institution practicing license, and/or the medical advertisement examination certificate, and can refuse the renewal applications for the advertisement examination certificates for a period of one year. | We ceased publishing the relevant advertisements, removed those already published to the extent practicable, and duly settled the fines immediately after receiving the notices from the competent authorities.<br><br>We have adopted the following internal control measures to prevent future occurrence of such non-compliance:<br><br>• *Training*. We have engaged PRC legal advisers to conduct legal compliance training periodically to our employees, including the management teams of our local clinics as well as members of our marketing teams, to increase their awareness of the relevant PRC laws and regulations, including the newly enacted Enforcement Guidance;<br><br>• *Policy*. We have formulated and distributed to our employees an internal control policy with respect to the contents of medical advertisements, as well as the relevant procedures of the government review ; and<br><br>• *Review and monitor*. We designate our legal department team to review and monitor the status of medical advertisements published by us and require all medical advertisements to be reviewed and approved by our legal department before publishing. We also require our legal department to keep the records of their reviewing and monitoring processes. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | (ii) our Kunming subsidiary was fined once in 2018 primarily for (a) posting advertisements containing false or misleading information, and (b) posting advertisements prior to completing the necessary governmental review process, and paid penalties in an amount of RMB200,000.<br><br>(iii) our Shanghai subsidiary was fined (a) once in 2019 for posting advertisements without including the governmental review record number, posting advertisements containing images of real patients, and posting online advertisements without highlighting the "close" button and without ensuring the viewers can close the advertisement window with a single click; and (b) once in 2021 for posting advertisements containing images of real patients and the success rate of our treatment services, and paid penalties in an amount of RMB40,000 and RMB150,000, respectively.<br><br>Other than the foregoing, in 2018, 2019, 2020 and during the period between December 31, 2020 to the Latest Practicable Date, we experienced four, three, seven and four incidents of non-compliances with the Advertisement Law of the PRC and/or the Administrative Measures of Medical Advertisements, respectively, and a total of 13 subsidiaries were involved, but each of such remaining non-compliance incidents was a minor violation involving penalties of no higher than RMB30,000. | With relevant to the non-compliance incidents of our Beijing headquarters set forth in (i)(b) and (i)(c), and the non-compliance incidents of our Shanghai subsidiary set forth in (iii) in the previous column, the penalty amounts were calculated based on the following formula: for immaterial violations, the penalty amount shall be between 1-3 times of the expenses actually incurred for the relevant non-compliant advertisement; but if the expenses incurred was not readily determinable or were obviously low, the penalty amount shall be between RMB100,000 to RMB200,000; for material violations, the penalty amount shall be between 3-5 times of the expenses actually incurred for the relevant non-compliant advertisement; but if the expenses incurred was not readily determinable or were obviously low, the penalty amount shall be between RMB200,000 million to RMB1 million. In addition, for material violations, the competent authorities can revoke the business license, and/or the medical advertisement examination certificate, and can refuse the renewal applications for the advertisement examination certificates for a period of one year. | |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | The foregoing non-compliances were not a result of any willful misconduct by our Directors or any of our employees. Such non-compliances occurred primarily because there were a number of ambiguities in the applicable regulations, and there were certain inconsistencies in the interpretation and/or application of the regulations by local government authorities. Our Directors are of the view that the enactment of the Enforcement Guidance, which explicitly stipulates what types of activities are illegal and clearly streamlines the interpretation and application standards, would actually help our Group in ensuring our ongoing compliance with the applicable regulations, and would significantly reduce the uncertainties faced by us in this regard. Please refer to the paragraphs headed "Summary — Recent Developments and No Material Change" for more information about the newly enacted Enforcement Guidance. We have also adopted enhanced internal control measures in this regard to prevent similar non-compliances from recurring. Please refer to the fourth column for more information. | With respect to the non-compliance incidents of our Kunming subsidiary set forth in (ii) in the previous column, the penalty amounts were calculated based on the following formula: the penalty amount shall be between 3-5 times of the expenses actually incurred for the relevant non-compliant advertisement; but if the expenses incurred was not readily determinable or were obviously low, the penalty amount shall be between RMB200,000 to RMB1 million; for repeated violations (more than three times in two years) or material violations, the penalty amount shall be between 5-10 times of the expenses actually incurred for the relevant non-compliant advertisement; but if the expenses incurred was not readily determinable or were obviously low, the penalty amount shall be between RMB1 million to RMB2 million. In addition,but if the expenses incurred was not readily determinable or were obviously low, the penalty amount shall be between RMB200,000 million to RMB1 million. In addition, for material violations, the competent authorities can revoke the business license, the medical institution practicing license, and/or the medical advertisement examination certificate, and can refuse the renewal applications for the advertisement examination certificates for a period of one year. | |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | | Based on, among others, the administrative penalty notices received from the competent authorities, the amounts we actually incurred for the relevant advertisements, the penalty amounts we actually paid, and the fact that the competent authorities never revoked the business license, the medical institution practicing license, or the medical advertisement examination certificate of our Beijing headquarters, and granted the subsequent renewal applications made by our Beijing headquarters for the advertisement examination certificates, our PRC Legal Adviser is of the view that the relevant non-compliances of our Beijing headquarters were immaterial violations as specified under the applicable advertisement laws, and the risk of revocation of our medical advertisement examination certificate by the competent authorities is remote. | |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| | | Our PRC Legal Adviser also confirmed that the abovementioned penalties are all historical penalties and we have already settled the penalties imposed by relevant authorities. Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that: (1) the fines imposed by the competent authorities accounted for less than 0.3% of our total revenue in 2018; (2) we had duly settled the fines imposed by the relevant authorities and rectified the non-compliance incidents as requested by the relevant authorities; (3) all of our clinics successfully obtained or renewed, as applicable, the medical advertisement examination certificates, and did not experience any material impediment during the certificate application/renewal process because of the historical non-compliance, and (4) as advised by our PRC Legal Adviser, considering that we had fully settled the fines and rectified the non-compliance incidents as requested by the relevant authorities, the risk that the relevant government authorities imposing additional fines or penalties on us for the same matters is remote. | |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
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| **Potential title defects in relation to some of our leased properties** | | | |
| As of the Latest Practicable Date, the actual usage of five leased properties (with an aggregate GFA of approximately 16,083.5 square meters, representing approximately 8.3% of our total leased GFA) was inconsistent with the usage set out in their respective title certificates or relevant authorization documents. | The potential title defects exist because the approved usage of the properties were for research, industrial, kindergarten, municipal public construction, and/or military, respectively, but the lessors leased the properties to us and we used those properties for offices or clinics. Such inconsistencies in the approved usage and the actual usage did not result in any discount on the rents we contracted to pay, and did not negatively affect the safety conditions of the properties we leased, based on our market studies and using experience.<br><br>The foregoing non-compliances were not a result of any willful misconduct by our Directors or any of our employees, but did reflect insufficiencies in our internal control measures adopted at the time, which insufficiencies contributed to our failure to prevent and to timely detect such non-compliances. We took prompt remedial and/or rectification measures as soon as we identified such non-compliances, and had exercised our reasonable best efforts to request, convince, and facilitate the relevant lessors and/or other responsible parties to correct such non-compliances. However, as of the Latest Practicable Date, the non-compliances were still not fully resolved because of reasons outside of our control. We have adopted enhanced internal control measures in this regard to prevent similar non-compliances from recurring. Please refer to the fourth column for more information. | As advised by our PRC Legal Adviser, it is primarily the lessors' responsibility to ensure the actual usage is consistent with the approved usage, and to the extent necessary, to complete the relevant "change of registration" procedures with the competent authorities to register the changed usage; we as the tenant will not be subject to any administrative punishment or penalties because of the lessors' failure to complete such procedures, but our use of these leased properties may be affected by third party claims or challenges against the lease. If the lessors do not have the requisite rights to lease these defective leased properties to us for our intended usage, the relevant lease agreements may be deemed invalid, and as a result we may be required to vacate these defective leased properties. | We have enhanced our internal control measures in connection with property rentals. We require all of our lessors to provide the valid title certificates and other necessary documentation before we enter into lease agreements with them. Before entering into any new lease agreements, we will carefully review the relevant documents provided by the lessors, to ensure that we will not inadvertently lease any property with title defects. All the lease agreements as well as the relevant documents provided by the lessors need to be approved by our legal department, who will report to our Compliance Committee periodically. We also provide trainings to members of our legal department as well as employees at our local clinics to familiarize them with the legal requirements in relation to property rentals. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| | | Based on our market research, there are plenty of other properties close to these properties, at substantially the same rental prices. We believe that if necessary, we would be able to relocate our offices and clinics to different sites relatively easily, and the relocation could be completed within three to six months. We expect that our relocation costs for each of the five defective properties would be up to approximately RMB0.3 million. Even if we are required to vacate any such properties, we expect that that transition period would be sufficient for us to open new clinics/offices before closing the old ones, so we do not expect our operation would be materially and negatively affect and do not expect to suffer any significant loss of revenue because of such relocation. In addition, as advised by our PRC Legal Adviser, in the event that we are unable to continue using these defective leased properties, according to the lease agreements, we as the tenant will not need to continue to pay the rents.<br><br>During the Track Record Period and up to the Latest Practicable Date, we had not encountered any safety issues or disputes with respect to these defective leased properties. | |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| | | Our Directors believe that these title defects described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) during the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, our leases with respect to these defective leased properties had never been challenged by any third parties, (ii) these defective leased properties are geographically dispersed across China under the jurisdiction of different local governmental authorities, so we believe it is unlikely that we would be subject to claims of rights from various third parties or required by the governmental authorities to relocate with respect to a significant number of these defective leased properties at the same time, (iii) we maintain a pool of site candidates for our clinics, offices and employee dormitories, and believe we would be able to relocate to different sites relatively easily should we be required to do so, and (iv) we have enhanced our internal control measures and procedures to prevent the leasing of properties with title defects. | |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| **Failure to complete the lease registration for some of our lease agreements** | | | |
| As of the Latest Practicable Date, with respect to 111 out of our 339 leased properties (with an aggregate GFA of approximately 84,444 square meters, representing approximately 43.43% of our total leased GFA), the relevant lease agreements we entered into have not been registered with the relevant PRC governmental authorities as required by applicable laws. | We were not able to complete the lease registration because our lessors failed to provide the necessary documents for us to register the leases in spite of our multiple requests. The non-registration of the leases did not result in any discount on the rents we contracted to pay, and did not negatively affect the safety conditions of the properties we leased, based on our market studies and using experience.<br><br>The foregoing non-compliances were not a result of any willful misconduct by our Directors or any of our employees, but did reflect insufficiencies in our internal control measures adopted at the time, which insufficiencies contributed to our failure to prevent and to timely detect such non-compliances. We took prompt remedial and/or rectification measures as soon as we identified such non-compliances, and had exercised our reasonable best efforts to request, convince, and facilitate the relevant lessors and/or other responsible parties to correct such non-compliances. However, as of the Latest Practicable Date, the non-compliances were still not fully resolved because of reasons outside of our control. We have adopted enhanced internal control measures in this regard to prevent similar non-compliances from recurring. Please refer to the fourth column for more information. | As advised by our PRC Legal Adviser, according to the *PRC Civil Code*, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements. However, the relevant PRC authorities may impose a fine on us ranging from RMB1,000 to RMB10,000 for each unregistered lease.<br><br>Our Directors believe that the non-registrations of leases described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) no penalty had been imposed on us for our failure to register and file the relevant lease agreements during the Track Record Period and up to the Latest Practicable Date, (ii) the maximum potential penalty for the non-registration of the leases will be approximately RMB1.11 million, so even if we were penalized by the competent authorities, it would not materially and adversely affect our business or financial position, (iii) as advised by our PRC Legal Adviser, if the lease registration can be completed in accordance with the relevant laws and regulations within a reasonable time from the date of application or the prescribed time limit ordered by the competent governmental authorities, the risk of governmental authorities imposing a penalty on us with respect to these leased properties is remote, and (iv) we have enhanced our internal control measures and procedures to prevent the re-occurrence of such incidents. | We are using our commercially reasonable efforts to register all the relevant leases.<br><br>We have enhanced our internal control measures in connection with property rentals. We require all of our lessors to provide the necessary documentation before we enter into lease agreements with them, and to cooperate with us in completing the registration of the lease agreements. Designated staff from our legal department will conduct self-inspections from time to time on whether the lease agreements are properly registered, and if they identify any non-registered lease agreement, they will require the responsible employees at our local clinics to follow-up on the registration status. The designated staff from our legal department are required to keep records of the lease registration status, and to report to our Compliance Committee periodically about their findings. We also provide trainings to members of our legal department as well as employees at our local clinics to familiarize them with the legal requirements in relation to property rentals. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| **Performance of hair transplant surgeries without the supervision of physicians holding the Aesthetic Medical Attending Physician (醫療美容主診醫師) qualification** | | | |
| During the Track Record Period, we identified three isolated incidents where physicians at our clinics performed hair transplant surgeries for patients without the supervision of physicians possessing the Aesthetic Medical Attending Physician qualification. | We have a large team of medical professionals. In each of our clinics, we have physicians (each holding a Practicing Certificate of Physician (執業醫師證)), and resident physician (holding the Aesthetic Medical Attending Physician qualification) as required. As advised by our PRC Legal Adviser, the qualification of Aesthetic Medical Attending Physician is an ancillary qualification to the Practicing Certificate of Physician (執業醫師證).<br><br>We have designed a set of standard procedures to ensure that the resident physicians holding the Aesthetic Medical Attending Physician qualification will be present when we provide aesthetic medical services to our customers. However, during the Track Record Period and up to the Latest Practicable Date, we identified three isolated incidents where hair transplant surgeries were performed by physicians holding only the Practicing Certificates of Physician, without the supervision of any physician holding the Aesthetic Medical Attending Physician qualification. Based on the results of our self-inspection, such incidents occurred because certain of our employees at the relevant local clinics did not strictly follow our standard procedures, and the physician holding the Aesthetic Medical Attending Physician qualification were not present at the relevant clinics when the surgeries were conducted, due to personal reasons. | As advised by our PRC Legal Adviser, the *Classification Catalog of Aesthetic Medical Items* (醫療美容項目分級管理目錄) classified aesthetic medical services into four categories based on the risks involved in the relevant procedures, and hair transplant surgeries are classified as Grade 1, the grade with the lowest risks. The *Rules of Aesthetic Medical Services Management* (醫療美容服務管理辦法) require aesthetic medical services be conducted by, or under the supervision of, physician holding the Aesthetic Medical Attending Physician qualification, but did not specify the penalty for violation of such requirements. According to our PRC Legal Adviser, based on precedent cases, the maximum penalty for each violation would be a fine of approximately RMB50,000.<br><br>During the Track Record Period and up to the Latest Practicable Date, two of our clinics, namely Kunshan and Nanchang clinics, were penalized for the three incidents identified of performing hair transplant surgeries for patients without the supervision of physicians possessing the Aesthetic Medical Attending Physician qualification. The Kunshan clinic and the Nanchang clinic paid a penalty in an amount of RMB9,000 and RMB10,000, respectively. | We have further enhanced our internal control measures to ensure that the resident physicians holding the Aesthetic Medical Attending Physician qualification will be present when we provide aesthetic medical services to our customers. We established a Medical Quality Control Committee led by Mr. LI Xiaolong, our general medical service director, and comprised ten senior medical staff and 15 medical quality experts. The medical service quality control committee further updated the practice guidelines that all the physicians at our local clinics need to follow. Pursuant to the updated practice guidelines, whenever a surgery is performed at our clinic, the handling physician, as well as the resident physician holding the Aesthetic Medical Attending Physician qualification, are required to sign on the patient's medical record form. If for whatever reason, the resident physicians holding the Aesthetic Medical Attending Physician qualification is not present in any given day, the clinics are strictly prohibited from conducting surgeries on that day. Members of our Medical Quality Control Committee will from time to time conduct inspections on our local clinics and examine the medical records of the patients, to ensure strict compliance with such requirements by the physicians. Our Medical Quality Control Committee will report to our Compliance Committee periodically about their findings. |

| Nature of the Non-Compliances | Reasons For the Non-Compliances | Legal Consequences, Maximum Potential Penalty/Liabilities, and Potential Operational and Financial Impacts | Remedial/Rectification Actions Taken and Internal Control Measures |
|---|---|---|---|
| | The foregoing non-compliances were not a result of any willful misconduct by our Directors, but did reflect insufficiencies in our internal control measures adopted at the time, which insufficiencies contributed to our failure (i) to strictly enforce our standard operational procedures at our local clinics to each of our employees, and (ii) to prevent and to timely detect such non-compliances. We took prompt remedial and/or rectification measures as soon as we identified such non-compliances, and had penalized the responsible employees at the relevant clinics. We have also adopted enhanced internal control measures in this regard to prevent the recurrence of similar non-compliances. Please refer to the fourth column for more information. | The relevant authorities confirmed that the relevant non-compliances were not material violations. Our PRC Legal Adviser confirmed that we have already settled the penalties. Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that: (1) the fines imposed by the competent authorities accounted for less than 0.001% of our total revenue in 2020; (2) we had duly settled the fines imposed by the relevant authorities and rectified the non-compliance incidents as requested by the relevant authorities; and (3) as advised by our PRC Legal Adviser, considering that we had fully settled the fines and rectified the non-compliance incidents as requested by the relevant authorities, the risk that the relevant government authorities imposing additional fines or penalties on us for the same matters is remote.<br><br>In addition, such non-compliances may involve us in medical disputes. For example, as of the Latest Practicable Date, we had two ongoing legal proceedings involving medical disputes brought by our hair transplant patients, and one of them was filed against our Kunshan clinic. Based on the claims made by the plaintiff, we estimate that our maximum exposure in relation to this legal proceeding will not exceed RMB190,000. Please see "— Legal Proceedings" for more details of the ongoing legal proceedings. | |

Our PRC Legal Adviser confirms that except as disclosed above, we have complied with the material laws and regulations applicable to our business during the Track Record Period and up to the Latest Practicable Date in all material respect.

In addition, Mr. Zhang, one of our Controlling Shareholders, had entered into a Deed of Indemnity and had agreed to indemnify our Group at all times from and against any losses, liabilities, damages, costs, expenses and fines suffered by or incurred by the Group arising from any further claims brought by any regulatory authorities or any other third party in connection with the non-compliances as set out above.

## LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material and adverse effect on our business, financial condition or results of operations.

We are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by our patients against us. During the Track Record Period and up to the Latest Practicable Date, none of these medical disputes involved fatalities or severe bodily injuries of our patients. Medical disputes arise in our operations were mostly related to patients' dissatisfaction with hair transplant results. Depending on hair type, the density of the follicles, the stage of hair loss and other physical health conditions, the results of our treatment for an individual patient may vary greatly. As part of our risk management and internal control procedures, we have informed our patients of these inherent risks and obtained their consents before conducting relevant treatments or procedures. Most of the medical disputes with our patients were settled through direct negotiations. However, they may choose to seek claims against us through legal proceedings if initial negotiation to reach a settlement fails. During the Track Record Period, we did not experience any material medical disputes that could cause a material adverse effect on our business, financial condition or results of operations. For the year 2018, 2019, 2020, and the six months ended June 30, 2021, the aggregate amount of monetary compensation paid to our patients by us were approximately RMB0.4 million, RMB0.3 million, RMB2,353 and nil, respectively.

As of the Latest Practicable Date, we had two ongoing legal proceedings involving medical disputes brought by our hair transplant patients. One was filed against our clinic in Shenzhen, Guangdong province (the "**Shenzhen Case**"), and the other one was filed against our clinic in Kunshan, Jiangsu province (the "**Kunshan Case**"). The Shenzhen Case was filed by a hair transplant customer against Shenzhen Yonghe in April 2020, alleging, among others, that the effects of the hair transplant performed by Shenzhen Yonghe did not meet the proclaimed and guaranteed effects as provided in the service agreements entered into between the parties. The plaintiff claimed the compensation in the total sum of RMB64,029.6. The local district court rendered a decision in December 2020 rejecting all claims by the plaintiff. The plaintiff appealed to the intermediate court in January 2021, and the intermediate court reversed the first trial verdict and remanded for a new trial in July 2021. As of the Latest Practicable Date, the Shenzhen Case was still under consideration by the relevant court. The Kunshan Case was filed by a hair transplant customer against Kunshan Yonghe and Yonghe Investment in April 2021, alleging, among others, (i) unsatisfactory effects of the hair transplant; (ii) refusal of inspection of original medical record; and (iii) the handling physician did not possess relevant qualification of Medical Aesthetic Attending Physician. The plaintiff claimed a return of the service fees and a compensation in an aggregate amount of RMB183,820. As of the Latest Practicable Date, the Kunshan Case was still under consideration by the relevant court. Based on the aggregate amounts claimed by the plaintiffs in the two cases, we estimate that our maximum exposure in relation to the proceedings will not exceed RMB250,000. During the Track Record Period and up to the Latest Practicable Date, none of our medical disputes involved any determination by the relevant authorities that we were liable for medical malpractice.

We believe these medical disputes reflect the inherent risks related to our business and operations. We may continue to face potential legal proceedings and claims in our operations. See "Risk Factors — Risks Relating to Our Business — We are exposed to inherent risks of medical incidents, malpractice, medical negligence, misconduct claims arising from our operations, and resolving such incidents could result in significant costs and materially and adversely affect our reputation and business".

## ENVIRONMENTAL SUSTAINABILITY AND SOCIAL RESPONSIBILITY

We are committed to building a lasting brand, and we believe our long-term success rests on our ability to make positive impacts on the environment and society. Corporate social responsibility is a core part of our business philosophy and will be pivotal to creating sustainable value for our Shareholders. Accordingly, our Board of Directors has adopted a comprehensive policy on environmental, social and corporate governance responsibilities (the "**ESG Policy**") in accordance with the Listing Rules, which sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations.

Under our ESG Policy, we aim to build a sustainable community with our employees, customers and business partners by supporting local initiatives that aim to create effective and lasting benefits to the local community through various initiatives that may include corporate philanthropy, establishing community partnerships, and mobilizing our employees to participate in volunteer work.

During the Track Record Period, we have taken the following environmental sustainability and social responsibility initiatives:

### Environmental Protection

We are subject to various laws and regulations in the PRC in relation to environmental matters and the disposal of medical waste, which includes medical sanitation, reduction of occupational hazards in clinics, prevention of medical accidents, disease control, disposal of medical waste and discharge of wastewater and pollutants. For further details, see "Regulatory Overview" in this document.

We are committed to complying with applicable PRC regulatory requirements, preventing and reducing various hazards and risks associated with our operations, and ensuring the health and safety of the patients and employees of our clinics and surrounding communities. Our operations do not involve heavy use of harmful or hazardous materials, so in practice, the amount of medical waste, wastewater and pollutants our clinics actually discharge are far below the permitted level.

We generate various medical wastes and substances, such as used disposable medical supplies and devices including needles, cotton pads and other wound dressings and waste blood, from various procedures during our provision of hair transplant services and medical hair care services to our clients. In compliance with the relevant environmental laws and regulations, we have adopted stringent internal control measures to ensure the proper disposal and processing of medical wastes and substances. For example, we have adopted the *Medical Wastes Management Policies* to set our detailed requirements and procedures for disposing and processing medical wastes, including classifying medical wastes according to the relevant PRC laws and regulations and engaging qualified third parties to collect medical wastes from our clinics. We have also adopted the *Response Plan* for *Medical Wastes Leakage Accidents* to prepare our staff for the potential emergency situations. We have contracted with qualified waste management companies for the collection and processing of our medical wastes and wastewater, and

timely paid wastewater processing fees as part of our water bills to the relevant authorities during the Track Record Period and up to the Latest Practicable Date.

To ensure the proper implementation of our policies on environmental protection, we will conduct inspections over each of our clinics regularly and provide trainings to our staff from time to time to update them with the relevant internal standards and procedures, as well as the relevant environmental laws and regulations, to ensure their compliance with the same. We have also adopted policies regarding the efficient use of water and electricity to reduce the waste of resources.

We believe that we are not susceptible to climate change, and we have not experienced extreme weather in the areas where we conduct our operations. As of the Latest Practicable Date, we had not experienced any material impact on our business operations or financial performance as a result of climate change or extreme weather conditions.

For 2018, 2019, 2020 and the six months ended June 30, 2021, our total costs of compliance with applicable environmental laws and regulations were RMB0.25 million, RMB0.54 million, RMB0.77 million and RMB0.43 million.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines, penalties or other legal actions by any government agencies resulting from any material non-compliance with any environmental protection laws. We believe that we are in compliance in all material respects with applicable environmental regulations in the PRC. In the future, we expect that the annual cost of compliance with health, safety and environmental protection rules and regulations may increase in line with the growth and expansion of our business.

**Social Responsibility**

We view corporate social responsibility as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests. For example, we actively assumed social responsibilities by initiating the "Yonghe Caring for Hair Loss Program" (雍禾脱髮愛計劃) charity project, in which we performed hair transplant services for free for patients suffering from hair loss caused by burns, scalds and other accidents, with an aim to help them improve their appearances and regain their confidence. Moreover, in 2020, during the COVID-19 outbreak in Wuhan, we again set an example for our industry by quickly responding to the situation and donating money and other resources to the Wuhan Charity Federation.

We stick to integrity, safety, and transparency for providing medical services, which is enforced through a variety of means, such as entering into service quality assurance agreements with patients, and live-streaming surgical operations. We require our physicians to thoroughly inform our patients of the risks and possible side effects prior to the performance of any treatment procedures. Further, in order to avoid unscrupulous sales practices, we have established a series of control measures such as preventing our staff from overselling and adopting reasonable refund policies. We do not provide sales on credit or any kind of loans to our clients in respect of the service fees in order to avoid the sale of excessive and unnecessary medical procedures to clients. We provide trainings to our sales and marketing team from to time in relation to proper sales practices. We have also established systematic and efficient client feedback management system and client complaints management system to handle any clients' feedback and complaints in relation to our services. For details, see "— Client Feedback and Complaint Handling" in this section.

We will also focus on embracing diversity within our organization and equal and respectful treatment of all of our employees in their hiring, training, wellness, and professional and personal development. We recognize and embrace the benefits of having a diverse Board of Directors to enhance the quality of its performance. To this end, we have adopted a board diversity policy that requires all board appointments to be based on meritocracy and candidates to be considered against objective criteria. While maximizing equal career opportunities for everyone, we will also promote work-life balance and create a happy culture in our workplace for all of our employees.

We value the importance of maintaining a safe, healthy and efficient work environment for all of our employees. We have implemented various internal occupational health and safety procedures to maintain a safe work environment, including adopting protective measures at our facilities, maintaining the hygiene of surgery rooms and offices, inspecting our equipment and devices regularly to identify and address safety hazards, and providing regular training to our employees on safety awareness. During the outbreak of COVID-19, we have endeavored to provide a safe work environment by implementing company-wide self-protection policies for employees, including providing protective masks and sanitization to our employees. During the Track Record Period, we did not experience any material accidents involving personal injury or property damage and we were not subject to any material claims, lawsuits, penalties or disciplinary actions as a result of any material accidents.

**Metrics and Targets**

Through devising our ESG Policy, we have established a set of key performance indicators (KPIs) in relation to environmental protection to restrain and guide our business operation. Historically, consistent with the industry norm, we mainly tracked the KPIs for medical waste disposal, water usage and power usage of our in-network clinics. In setting targets for each KPIs, we have taken into account their respective historical levels during the Track Record Period, and have considered our planned business expansion in a thorough and prudent manner with a view to balancing business growth and environmental protection to achieve sustainable development. Set forth below are our major KPIs during the Track Record Period and our targets for such KPIs in the next three years.

- *Medical waste disposal.* During the Track Record Period substantially all of our medical wastes were generated from hair transplant surgeries. The medical wastes disposed by our clinics totaled approximately 82.3 tons, 151.4 tons, 178.7 tons and 95.9 tons, respectively, in 2018, 2019, 2020 and the six months ended June 30, 2021, which was in line with the increase in the volume of hair transplant surgeries performed by our clinics. Based on historical levels and the estimated increase in the volume of hair transplant surgeries to be performed by our clinics as a result of our planned business expansion, we expect that the total medical wastes disposed by our clinics will range from 200 tons to 400 tons per annum in the next three years. We have adopted stringent internal control measures to ensure the proper disposal and processing of medical wastes. We will continue to engage qualified waste management companies to collect and process our medical wastes. We expect that the fees paid by us for medical waste collection and processing will increase as a result of our business growth, while the relevant expenses are expected to remain as a small portion of our total operating expenses and will not significantly affect our financial position in the foreseeable future.

- *Water usage.* During the Track Record Period, the water usage of our clinics totaled approximately 38,481 tons, 65,551 tons, 77,693 tons and 47,555 tons, respectively, in 2018,

2019, 2020 and the six months ended June 30, 2021, which was in line with the increase in the number of patients receiving treatments at our clinics. Based on historical levels and the estimated increase in the number of patients, we expect that our total water usage will range from 100,000 tons to 220,000 tons per annum in the next three years. We have devised a plan on managing and controlling water usage per head, and adopted policies regarding the efficient use of water to reduce waste. We expect that our water bills will increase as a result of our business growth, while the relevant expenses are expected to remain as a small portion of our total operating expenses and will not significantly affect our financial position in the foreseeable future.

- *Power usage.* During the Track Record Period, the power usage of our clinics totaled approximately 4.0 million kWh, 6.1 million kWh, 7.9 million kWh and 5.1 million kWh, respectively, in 2018, 2019, 2020 and the six months ended June 30, 2021, which was in line with the increase of the total operating area of our clinics. Based on historical levels and the planned operating area of our clinics to be established or upgraded, we expect that our total power usage will range from 15.0 million kWh to 25.0 million kWh per annum in the next three years. We have devised a plan on managing and controlling power usage per square meter, and adopted policies regarding the efficient use of electricity to reduce waste. We expect that our electricity bills will increase as a result of our business growth, while the relevant expenses are expected to remain as a small portion of our total operating expenses and will not significantly affect our financial position in the foreseeable future.

Our Board of Directors has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks at least once a year. Our Board of Directors may assess or engage independent third party(ies) to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks. As advised by our PRC Legal Adviser, there were no breaches or violations of the PRC environmental laws and regulations applicable to our business operations during the Track Record Period that would have a material and adverse impact on our business, or results of operation taken as a whole. In addition, we had not been subject to any material claim or penalty in relation to health, safety, social and environmental protection, or been involved in any significant work place accident or fatality. During the Track Record Period, our total expenses for implementing our ESG Policy and for compliance with the relevant rules and regulations were insignificant and we expect such expenses to remain at relatively low levels in the foreseeable future.

## INTELLECTUAL PROPERTY

We believe that intellectual property rights are critical to our continued success. We primarily rely on the applicable laws and regulations on trademarks, patents, trade secrets, and confidentiality agreements to protect our intellectual property rights. We have registered or applied for registration of certain trademarks, patents and domain names in the PRC and Hong Kong relating to the names and logos of our clinics. As of the Latest Practicable Date, we had (i) 186 trademarks registered in the PRC, two trademark registered in Hong Kong, one trademark registered in Macau and 69 pending trademark applications in the PRC; (ii) 24 patents registered in the PRC and six pending patent applications in the PRC; (iii) 17 computer softwares registered in the PRC; and (iv) 130 registered domain names in the PRC. As we direct more resources towards research and development, we will continue to patent new techniques, technologies and other innovations.

As of the Latest Practicable Date, our material registered patents were set out in tables below:

*Registered Patents*

| No. | Patient No. | Description | Patent type | Place of Registration | Registered owner | Application date |
|---|---|---|---|---|---|---|
| 1. | ZL201930685346.3 | Operating room communication trolley | Design | PRC | Yonghe Investment | December 09, 2019 |
| 2. | ZL201930685445.1 | Hair testing machine | Design | PRC | Yonghe Investment | December 09, 2019 |
| 3. | ZL201930555554.1 | Hair testing machine | Design | PRC | Yonghe Investment | October 12, 2019 |
| 4. | ZL201921693956.9 | A testing device | Utility model | PRC | Yonghe Investment | October 10, 2019 |
| 5. | ZL201820622564.2 | Hair transplant punch and hair transplant surgery equipment | Utility model | PRC | Yonghe Investment | April 27, 2018 |
| 6. | ZL201730131657.6 | Hair follicles extract needles | Design | PRC | Yonghe Investment | April 19, 2017 |
| 7. | ZL201720102689.8 | A hair follicles extract needle | Utility model | PRC | Yonghe Investment | February 2, 2017 |
| 8. | ZL202130288308.1 | Postoperative effect imaging contraster | Design | PRC | Yonghe Investment | May 14, 2021 |

During the Track Record Period and up to the Latest Practicable Date, there was no material infringement of third-party intellectual property rights by our Group. As of the Latest Practicable Date, we were not aware of any material infringement or dispute regarding our intellectual property rights. We believe that we have taken reasonable measures to prevent infringement of our intellectual property rights. For more details, see "Appendix IV — Statutory and General Information — B. Further Information about the Business of the Company — 2. Our material intellectual property rights."

## DATA PRIVACY AND PROTECTION

During our ordinary course of business, we collect an extensive volume of data of our customers, primarily including name, gender, contact information, basic health information, consultation and treatment records, and other medical records. We collect such information primarily for communications, treatment planning and delivery of our services and products. We retain the ownership of such information and data, and generally store such personal information and data on our physical servers for

the minimum time necessary for the purpose of their processing, ranging from years to permanent preservation, which, as advised by our PRC Legal Adviser, is in accordance with the applicable laws and regulations in all material respects.

We have formulated strict policies such as *Information Management Policies, Data Privacy Protection Policies* and *Data Analysis Management Policies* to govern the collection, handling, storage, retrieval, and access of our customer's personal data and medical records. Our clinics use secured information technology systems to manage our clients' personal information and medical records. Access to such systems is subject to clearance control and authorization. We take safety precautions in online data storage and processing. We utilize hypertext transfer protocol secure ("**HTTPS**") to secure the communications over our network and file encryption technology that prevents unauthorized view or modification. Our information technology network is configured with multiple layers of protection to secure our databases and servers. We have also implemented a variety of protocols and procedures, such as regular system checks, password policy, server access logging, network access authentication, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our data assets and prevent unauthorized access to our network.

In addition, to protect patient data against unauthorized physical access, files that include such data are stored in lockable cabinets, which can only be accessed by designated personnel of our clinics. For medical records of our clients that are kept manually, we have designated personnel at our clinics responsible for the safekeeping of such medical records.

Furthermore, we enter into confidentiality agreements with our employees who have access to any aforementioned privacy information. The confidentiality agreements provide that, among others, these employees are legally obligated not to misuse the confidential information while in office, to surrender all confidential information in possession while resigning, and to retain their confidential obligations after they leave office. We also implement a series of measures to ensure our employees' compliance with our data security measures. For instance, we require new hires to receive onboarding training on data security and employees to receive on-the-job training regularly to reinforce relevant data security policies. Employees shall acknowledge to us that they understand and will follow our data security policies.

During the Track Record Period, we did not experience any breach of confidential client information or any other client information-related incidents which could cause a material adverse effect on our business, financial condition or results of operations.

## PROPERTIES

We do not own any property but instead lease certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our clinics, offices and employee dormitories.

According to Section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong) and Chapter 5 of the Listing Rules, this document is exempted from compliance with the requirements of Section 342(1)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all of our interests in land and buildings, for the reason that, as of December 31, 2020, we had no property interest with a carrying amount of 15% or more of our total assets.

### Leased Properties

As of the Latest Practicable Date, we leased 339 properties in the PRC with an aggregate GFA of approximately 194,444.85 sq.m. Among such 339 properties, 133 were operated as offices and clinics, and 206 were used as employee dormitories.

#### *Title Defects*

As of the Latest Practicable Date, the actual usage of five leased properties (with an aggregate GFA of approximately 16,083.5 square meters, representing approximately 8.3% of our total leased GFA) was inconsistent with the usage set out in their title certificates or relevant authorization documents. Please see "— Licenses, Permits, Approvals and Compliance" for more details about such potential title defects.

#### *Lease Registration*

As of the Latest Practicable Date, with respect to 111 out of our 339 leased properties (with an aggregate GFA of approximately 84,444 square meters, representing approximately 43.43% of our total leased GFA), the relevant lease agreements we entered into have not been registered with the relevant PRC governmental authorities as required by applicable laws. Our lessors' failure to provide the necessary documents for us to register the leases does not result in any reduction in rent. Please see "— Licenses, Permits, Approvals and Compliance" for more details about the failure to complete the lease registration.

## INTERNAL CONTROL AND RISK MANAGEMENT

Our internal control and risk management measures are designed to meet our specific business needs and minimize our risk exposure. We have adopted different internal guidelines, policies and procedures to monitor and reduce the impact of risks relevant to our business, improve our corporate governance and ensure compliance with the applicable laws and regulations. Our Board is responsible for establishing our internal control and risk management measures and reviewing their effectiveness.

### Adoption and Implementation of Internal Control Policies

In preparation for the [**REDACTED**], we have engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform a review of our internal controls over financial reporting in 2020. The work scope of the Internal Control Consultant covers operational, financial reporting and anti-bribery compliance-related controls. We had improved our internal control system by adopting and implementing a series of new internal control policies. Going forward, we will continue to regularly review and improve these internal control policies, measures and procedures.

Following the advice from the Internal Control Consultant, we have adopted and implemented a series of new internal control policies as well as measures and procedures designed to provide further assurance on effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Going forward, we will continue to regularly review and improve these internal control policies, measures and procedures. To further enhance our corporate governance practices and the effectiveness of our internal control procedures, we have adopted the following steps and measures:

(i) With respect to medical disputes, we require all our departments and staff to follow our internal procedures on handling medical disputes. Any material incident which has caused or may cause injury or any other serious consequences shall immediately be reported to senior managements in the headquarters, which shall investigate the incidents. Our dean is responsible for preserving relevant evidence and offering our clients and/or their families an explanation, and try to solve the disputes amicably;

(ii) With respect to anti-corruption, we have specific policies and procedures in place. Our management and audit committee oversees the design and implementation of anti-corruption policies and procedures. Related policies are set forth in the employee handbook and code of conduct. We have a zero tolerance policy towards accepting any form of bribes by physicians, staff and clinic management. We have also established a whistleblower program, dedicated hotline and email address to receive named or anonymous reports of corruption charges and stringent investigation protocols. Any employee found in breach of the relevant anti-corruption policies faces termination of employment. Our employees undergo anti-corruption training on an annual basis and we maintain relevant training records;

(iii) With respect to patient and staff safety, we have implemented safety measures at our clinics to ensure compliance with applicable regulatory requirements and minimize injury risk to employees. We have a proper system in place for recording and handling accidents. We have designated personnel responsible for handling work accidents and injuries and maintaining health and work safety compliance records;

(iv) With respect to medical advertising, we have promulgated medical advertising related guideline, which sets forth the relevant requirements on the content and management of medical advertisements, and require the relevant departments to comply with the guidelines. We require our marketing department to update and publish the guidelines and interpret the procedures and closely follow any changes in the regulatory requirements on medical advertising-related laws. Besides, we organize periodic trainings on a monthly basis to our employees regarding compliance with the Advertisement Law of the PRC, the Measures for the Administration of Medical Advertisement, as well as the newly enacted Enforcement Guidance. In addition, our senior managements in the headquarters performs regular reviews on the design and implementation of the relevant internal controls;

(v) With respect to our title defects of leased properties during the Track Record Period, starting in 2021, we have required all of our lessors to provide the necessary documentation and valid title certificates before we enter into lease agreements with them and we will not enter into lease agreements for properties with title defects. Moreover, we have more stringently required our lessors to register our lease agreements with the relevant housing administrative authorities; and

(vi) With respect to certain non-compliance incidents we experienced during the Track Record Period and up to the Latest Practicable Date, including failure to obtain certain licenses and permits necessary for the operation of some of our clinics, and non-compliances relating to the Advertisement Law of the PRC, we have adopted enhanced internal control measures to prevent the future occurrence of such non-compliances, see "— Licenses, Permits, Approvals and Compliance" in this section for details.

**Enhanced Internal Control Measures**

In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented measures intending to establish and maintain our internal control system, including monitoring operational processes, establishing risk management policies, and compliance with applicable laws and regulations. In particular:

(i) In order to ensure our business operates fully in compliance with applicable regulatory requirements and to prevent non-compliance incidents such as failure to complete necessary fire safety procedures, failure to obtain water discharge licenses, failure to comply with Advertisement Law of the PRC, lease properties with title defects, failure to complete lease registration for lease agreements, we established regulatory compliance committee ("**Regulatory Compliance Committee**") to oversee our Group's overall regulatory compliance works and formulate the Group's regulatory compliance management strategies.

The Regulatory Compliance Committee comprises seven members, namely Mr. ZHANG (our chief executive officer), Ms. HAN Zhimei (our finance director), Mr. XU Yang (our operating director), Mr. HUANG Donghong (our marketing director), Mr. ZHANG Hui (our procurement director) and our general counsel. For further details of Mr. ZHANG, Ms. HAN Zhimei, Mr. XU Yang, Mr. HUANG Donghong and Mr. ZHANG Hui, see sections headed "Directors and Senior Management — Directors" and "Directors and Senior Management — Senior Management" in this document.

The primary duties of the Regulatory Compliance Committee are to ensure compliance with regulatory matters as well as the adequacy and effectiveness of regulatory compliance procedures and system of the Company. The members of the Regulatory Compliance Committee, individually or as a whole, have unrestricted access to advice given by professional advisers of our Group. The roles of the Regulatory Compliance Committee include, but not limited to, the following:

- formulate major policies and implementation plans for the Group's regulatory compliance management;
- review and monitor the overall goals and basic policies of the Group's regulatory compliance management;
- monitor the regulatory compliance status of the Group, review material non-compliance incidents (including but not limited to the non-compliance incidents listed above) of the Group and formulate corresponding solutions; and
- supervise the implementation of rectification measures for non-compliance (including but not limited to the non-compliance incidents listed above), supervise and evaluate the compliance management works of the company's compliance management inspection team ("**Compliance Management Inspection Team**").

The Regulatory Compliance Committee will be assisted by the Compliance Management Inspection Team to monitor, manage and supervise the non-compliance status of the Group.

The Compliance Management Inspection Team comprises staff from the Company's legal and compliance department and audit department. The roles and responsibilities of the Compliance Management Inspection Team include, but not limited to, the following:

- continuously monitor the compliance management of the Company's business operation, especially focusing on (i) the completeness of the licenses and approvals required for opening new clinics, including fire safety procedures and water discharge licenses, (ii) compliance management of medical qualifications of physicians and nurses at the Company's clinics, (iii) compliance management of licenses for construction works at new clinics, (iv) compliance management for property leasing and leasing agreement registration, and (v) compliance management of marketing advertisements;

- on a regular basis, randomly check and track the completion of the rectification status of the Group's non-compliance incidents at each clinic. The Compliance Management Inspection Team has the power to request the cooperation of the relevant departments at our headquarters as well as each of our local clinics, to award and incentivize those employees who made significant contributions in our non-compliance rectification process, and to design disciplinary and/or punishment measures for those employees who perform poorly in this regard;

- report to the Regulatory Compliance Committee quarterly on the Group's penalties for non-compliance matters, and the rectification status of the previously identified non-compliance matters, and put forward compliance management recommendations;

- make amendment suggestion to terms of department rules of various departments of the Company from the perspective of compliance management; and

- perform other tasks arranged and required by the Regulatory Compliance Committee.

(ii) In order to improve our medical activity quality and prevent the non-compliances incidents in relation to medical activities from happening, we established medical quality control committee ("**Medical Quality Control Committee**") at the headquarter level to enhance the Group's management of medical service quality and improve the Group's medical technology.

The Medical Quality Control Committee comprises 10 members from our Group's senior medical staff, including Mr. LI Xiaolong (our general medical service director), medical service director, medical quality director, national head nurse, infection control director, medical policy director, two medial quality control heads, medical assistant and senior customer service manager, and 15 medical quality experts who are experienced medical practitioners.

The responsibilities of the Medical Quality Control Committee at the headquarter level include, but not limited to, the following:

- supervise and manage the medical activities quality and medical technology quality, formulate annual work plan for management of medical activities quality and medical technology quality;

- organize and assess the Group's medical quality management system, comprehensively assess the Group's medical quality, and propose feasible plans to improve the quality of medical activity and medical technology;

- held meetings every half-yearly, discuss and evaluate issues detected in the medical quality management process, so as to improve the medical quality of the Group;

- formulate and improve the medical quality management system and the continuous improvement plan, and standardize the surgical quality standards, doctors and nurses' technical operating procedures and writing of medical documents;

- handle the complaints, errors, adverse events, negligence and accidents in medical care and medical technology works;

- publish medical quality management policy, and provide trainings to medical staff to improve their medical quality and medical safety awareness; and

- conduct regular inspection in nationwide clinics, using information technology to evaluate each and every hair transplant surgery.

The Medical Quality Control Committee will be assisted by medical quality control team ("**Medical Quality Control Team**") in each clinic of the Company. The Medical Quality Control Team in each clinic comprises deans, head nurse and attending physician of such clinic. The roles and responsibilities of the Medical Quality Control Team in each clinic include, but not limited to, the following:

- promote the implementation of the standards for medical activities, medical care and medical quality and conduct monthly self-inspection;

- promote the implementation of the surgery quality standards, technical operation standards and medical documents writing standards; and

- formulate the medical quality management annual plan in each clinic and report to the Medical Quality Control Committee.

(iii) we have compiled, with the assistance of our PRC Legal Adviser, a checklist of the relevant licenses and permits that would be required in order for us to commence operation of a new clinic, including primarily the medical institution practicing license, the business license, the construction permit, and the relevant approvals and inspections in connection with fire safety, water discharge and environment protection. Our in-house legal and compliance department will update this list from time to time based on our experience with local authorities and also advice given by our PRC Legal Adviser. Our Regulatory Compliance Committee and legal and compliance department will monitor the application process of the licenses and approvals/permits against the check list referred to above;

(iv) we will conduct rigorous due diligence as to the ownership certificate and other necessary licenses, permits and approvals of the landlords before we sign leases for our new clinics.

Our legal and compliance department requires that the certificates or proofs of the ownership of the properties must be reviewed for new lease agreements. If the lessor is not the owner of the property, the authorization of the sublease by the owner to the lessor must be obtained. Furthermore, the legal and compliance department will review the certificates or proofs of the ownership of the properties and the authorization of the sublease;

(v) with respect to non-compliance incidents in relation to fire safety, in addition to requiring completion of fire safety procedures before opening the new clinic as mentioned in above, we have also established our fire safety management policies, which unify the fire safety practice at every clinic throughout our network. According to our fire safety management policies, every clinic shall make plans for fire safety work and conduct fire safety inspection on a regular basis. We provide regular trainings on fire safety to our employees, which cover key aspects of daily operations of our clinics;

(vi) we have compiled, with the recommendation of our Internal Control Consultant and our PRC Legal Adviser, a code of conduct and practicing guidance for our management and medical staff at headquarter level and clinic level. According to the code of conduct for management and medical staff, we require our management and medical staff to perform their works with high level of integrity and ethical standards, follow the standards of medical industry, familiarise themselves with the laws and regulations in relation to our business operations, including any market trends or new legislation that may affect the Company's business operation;

(vii) we had arranged our executive Directors and senior management, as well as the local management teams of our clinics, to attend training sessions conducted by our PRC Legal Advisers, on applicable PRC laws, rules and regulations in relation to operating medical institutions and the relevant latest development thereof, in order to familiarise and update the relevant personnel on the laws and regulations applicable to our business operation. We will continue to implement various training programs which are relevant to our operations at least semi-annually after [**REDACTED**], with the help of our in-house legal and compliance department to update our Directors, senior management and employees on the relevant PRC laws and regulations and our internal control policies;

(viii) we will provide trainings, with the assistance of our legal and compliance department and external legal advisers, on our internal policies with respect to key operational aspects to our Directors, senior management and other key personnel of our Group on a need basis;

(ix) our Directors have attended training conducted by our Hong Kong legal adviser 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;

(x) we have instituted procedures for lines of communication and provided a process by which our employees can identify and report potential non-compliance exposures;

(xi) we have appointed Somerley Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we will be properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules,

codes and guidelines in Hong Kong from the [**REDACTED**] to the date when our Company distribute our annual report of our financial results for the first full financial year commencing after the [**REDACTED**]; and

(xii) we have established an audit committee comprising two independent non-executive Directors and one non-executive Director. The audit committee has also adopted its terms of reference which set out 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.

We also engaged our Internal Control Consultant to perform a follow-up review (the "**Follow-up Review**") on the implementation status of the specific enhanced internal control measures (the "**Specific Internal Control Measures**") adopted by us, and to make relevant recommendations to us on the areas that need further improvements in order to prevent the recurrence of the non-compliances mentioned above. The Internal Control Consultant considered that the Specific Internal Control Measure have been implemented and did not have any further recommendation in their follow-up review.

Furthermore, in October 2021, we also engaged Protiviti Shanghai Co., Ltd.(甫瀚諮詢(上海)有限公司) ("**Protiviti**") to perform another review of our internal control measures related to the non-compliances mentioned above (the "**Further Review**"). Based on the results of such Further Review, Protiviti is of the view that the relevant enhanced internal control measures, if implemented continuously, are adequate and effective to reasonably prevent the recurrence of similar non-compliances.

Our Directors and senior officers treated each non-compliance incident seriously, and would adopt rectification measures as well as enhanced internal control measures promptly after identifying any non-compliance incident. Therefore, the foregoing measures were adopted by us on a rolling basis, with certain measures adopted as early as in 2019. After all the foregoing enhanced internal control measures were fully adopted by the end of September 2021, we had not identified any recurrence of the foregoing non-compliance incident (except that with respect to certain lease agreements we newly entered into after September 2021, it would need to take us and/or the relevant lessors some time to complete the necessary lease registration process), nor had we identified any other non-compliance incident which would have a material impact on our business, financial condition and results of operation. Having considered, among others, (i) the nature and reasons for the non-compliance incidents as stated in this paragraph headed "Licenses, Permits, Approvals and Compliance" in this section; (ii) the various confirmations obtained from relevant competent governmental authorities in relation to the non-compliance incidents; (iii) the remedial actions undertaken and the Specific Internal Control Measures adopted by us; (iv) the significant progresses made by us in resolving the non-compliances and preventing their recurrence during the period between the end of the Track Record Period and the Latest Practicable Date; and (v) the Follow-up Review work performed by our Internal Control Consultant as well as the Further Review conducted by Protiviti, our Directors are of the view that our enhanced internal control measures are adequate and effective in preventing the recurrence of non-compliance incidents which could have a material adverse effect on our Group's business, financial condition and results of operations.

Based on (i) the discussion with the management of our Company about the nature and reasons for the non-compliance incidents, the remedial actions undertaken and the Specific Internal Control Measures adopted by our Group, and the latest status of rectification of the non-compliance incidents as of the Latest Practicable Date stated in this paragraph headed "Licenses, Permits, Approvals and

Compliance" in this section; (ii) the discussion with the Internal Control Consultant on the Follow-up Review work performed and the discussion with Protiviti on the Further Review conducted by it; and (iii) our Directors' view mentioned above, nothing has come to the Joint Sponsors' attention which would cause them to disagree with our Directors' view above in relation to our enhanced internal control measures.

Further, having considered,

- (i) the nature and reasons for the non-compliance incidents stated in this paragraph headed "Licenses, Permits, Approvals and Compliance" in this section; (ii) the various confirmations obtained from relevant competent governmental authorities in relation to the non-compliance incidents to the extent available; (iii) the relevant legal advice from our PRC Legal Adviser to the extent available; (iv) the remedial actions we have undertaken in relation to the non-compliance incidents and the significant progresses we made in this regard during the period between the end of the Track Record Period and up to the Latest Practicable Date, as disclosed in the paragraphs headed "Licenses, Permits, Approvals and Compliance" in this section;

- our Group has adopted and implemented the Specific Internal Control Measures to, among others, prevent the recurrence of the non-compliances;

- since the implementation of the Specific Internal Control Measures and up to the Latest Practicable Date, we have not identified, nor have we been accused of committing, any breach of applicable laws and regulations that will result in a material adverse effect on our Group's business, financial conditions and results of operation;

- the discussion with the Internal Control Consultant on the Follow-up Review work performed, its work results that the Specific Internal Control Measure have been implemented and that the Internal Control Consultant did not have any further recommendation in their the Follow-up Review;

- the discussion with Protiviti on the further review conducted by it, its view that the relevant enhanced internal control measures, if implemented continuously, are adequate and effective to reasonably prevent the recurrence of similar non-compliances;

- our Directors have devoted significant attention and resources on rectifying the non-compliance incidents and preventing their recurrence since they became aware of such non-compliances, have made significant progresses in these regards, and have undertaken to continue to rectify those non-compliances that are not fully rectified as of the Latest Practicable Date, the latest status of rectification of the non-compliance incidents as of the Latest Practicable Date are stated in this paragraph headed "Licenses, Permits, Approvals and Compliance" in this section;

- our Company and our Directors confirmed that the occurrence of the non-compliance incidents stated in this paragraph headed "Licenses, Permits, Approvals and Compliance" in this section was not due to the dishonesty, gross negligence or recklessness of our Directors nor for illegitimate purposes, and that none of the abovementioned non-compliance incidents suggested any dishonesty or fraud that would (i) affect our Directors' ability to

fulfil their fiduciary duties in addition to their duties of skill, care and diligence towards our Shareholders; or (ii) raise any issue regarding the integrity of our Directors;

- none of the non-compliance incidents stated in this paragraph headed "Licenses, Permits, Approvals and Compliance" in this section has any material impact on our business operations and financial position;

- the Deed of Indemnity entered into by Mr. Zhang, one of our Controlling Shareholders, in favor of our Group. See "— Licenses, Permits, Approvals and Compliance — Non-Compliances" for details; and

- our Directors confirmed that they are aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant laws, rules and regulations,

our Directors are of the view that the foregoing demonstrated our Directors' willingness as well as capabilities to operate our business in a compliant manner, and that our Directors are suitable to act as directors of a listed issuer under Rule 3.08 and 3.09 of the Listing Rules and our Company is suitable for listing under Rule 8.04 of the Listing Rules; and considering the foregoing, the Joint Sponsors concur with the Directors' view in relation to their suitability under Rules 3.08 and 3.09 of the Listing Rules and the suitability for [**REDACTED**] of our Company under Rule 8.04 of the Listing Rules. Our Directors will continue to use their respective reasonable best efforts to ensure our compliance with all applicable laws and regulations. The audit committee of our Board will closely supervise the ongoing rectification of the non-compliance incidents that had not been fully rectified as of the Latest Practicable Date, ensure the full rectification of such non-compliance incidents in accordance with the estimated timeline as disclosed in this document, and report in the interim reports and annual reports of the Company on the status of rectification of the non-compliance incidents after [**REDACTED**].

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

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

## OVERVIEW

We are the leading medical group in China specialized in providing hair-related healthcare services in terms of total revenue for 2020. We offer one-stop hair-related healthcare services covering hair transplant, medical hair care, and routine hair restoration and other ancillary services. According to Frost & Sullivan, we are the largest player in China's hair transplant service market with a market share of 10.5% and medical hair care service market with a market share of 4.3%, in terms of total revenue derived from the relevant services in 2020. Among all hair-related healthcare service providers in China, we ranked first in terms of the number of registered physicians at the end of 2020, the number of clinics in operation at the end of 2020, and the number of hair transplant patients for 2020, according to Frost & Sullivan. We adopt a standardized and scalable business model to operate a hair transplant chain consisting of mostly self-operated clinics. As of the Latest Practicable Date, we operated 53 clinics in 52 cities nationwide, making us the largest and most extensive hair transplant clinic chain in China, according to Frost & Sullivan. During the Track Record Period, we opened 29 new clinics in mainland China and acquired one clinic in Hong Kong, achieving the fastest growth among all hair transplant clinic chains in China and further widening our lead over the runners-up.

Driven in part by the rapid expansion of our clinic network, we experienced significant financial growth during the Track Record Period. Our revenue experienced an increase from RMB934.3 million in 2018 to RMB1,224.5 million in 2019 and further to RMB1,638.3 million in 2020. In addition, our revenue increased from RMB601.6 million for the six months ended June 30, 2020 to RMB1,053.4 million for the six months ended June 30, 2021. Our gross profit experienced significant growth from RMB702.1 million in 2018 to RMB889.1 million in 2019 and further to RMB1,221.6 million in 2020. In addition, our gross profit increased from RMB435.6 million for the six months ended June 30, 2020 to RMB775.4 million for the six months ended June 30, 2021. In addition, as a result of our successful operation, we recorded net cash generated from operating activities of RMB194.6 million, RMB182.5 million, RMB501.6 million, and RMB218.3 million in 2018, 2019, 2020, and the six months ended June 30, 2021, respectively.

## MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

### Our Clinic Network Expansion

During the Track Record Period, we generated most of our revenue from hair transplant services and medical hair care services at our clinics. Our revenue is largely affected by the number of our clinics in operation, and our future revenue growth depends on our ability to open new clinics and expand our clinic network. The following table sets forth the total number of our clinics in operation for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Number of clinics in operation at the beginning of the period | 22 | 30 | 37 | 48 |
| Number of new clinics opened during the period | 8 | 7 | 11 | 3 |
| Number of clinics acquired during the period | – | – | – | 1 |
| Number of clinics in operation at the end of the period | 30 | 37 | 48 | 52 |

As of the Latest Practicable Date, our 53 hair transplant clinics covered 52 cities nationwide. Our clinics can be categorized into three groups based on their respective opening date, including mature-stage clinics (i.e., clinics that have been established for more than three years), developing-stage clinics (i.e., clinics that have been established for one to three years), and newly-established clinics (i.e., clinics that have been established for less than one year). For acquired clinics, we regard the date when their financial position and results of operations are consolidated into our Group as their respective opening date. During the Track Record Period, we only acquired one clinic in May 2021. As of the Latest Practicable Date, we had 29 mature-stage clinics, 18 developing-stage clinics and six newly-established clinics (including the acquired clinic). The following table sets forth information on revenue generated from our clinics by development stage for the periods indicated:

| | Year Ended December 31, | | | S ix Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mature-stage clinics | 555,038 | 831,989 | 1,196,970 | 415,415 | 722,954 |
| Developing-stage clinics | 300,766 | 338,917 | 328,511 | 150,618 | 234,541 |
| Newly-established clinics | 62,210 | 41,929 | 100,477 | 31,879 | 86,216 |
| – Acquired clinic | – | – | – | – | 754 |
| **Total** | **918,014** | **1,212,835** | **1,625,958** | **597,912** | **1,043,711** |

We will further expand our geographical coverage by penetrating into lower-tier cities. We will continue to follow and improve the standard operating procedure, increase our penetration rate in cities where we have established operational presence, and further expand to lower-tier cities in China. We aim to reach nearly one hundred hair transplant clinics across the country within the next few years. For details of our expansion strategy, see "Business — Our Strategies — Continue our Network Expansion and Upgrade, and Strengthen Talent Development and Recruitment."

A newly-established clinic generally achieves normal ramp-up operation in a few months, during which its operating efficiency may be lower than that of mature-stage clinics or developing-stage clinics. We also incur substantial expenses before the commencement of operations, including construction and renovation costs as well as equipment costs, which could have a short-term negative impact on our liquidity and profitability. Based on our previous operating experience, our clinics' average initial breakeven period is three months and average cash payback period is 14 months. The breakeven periods may be further affected by the specific characteristics of a clinic, such as its size, initial investment and location. Our progress in opening new clinics from period to period may also occur at an uneven rate. As a result, our profitability may fluctuate from period to period.

**Same-Store Sales Growth**

In addition to the expansion of our clinic network, our revenue and profitability are also affected in part by our ability to achieve revenue growth from our existing clinics. The following table sets forth the details of our same store sales and year-over-year same store sales growth of our clinics by development stage during the Track Record Period. We define our same stores to be those clinics that were in operation throughout the periods under comparison.

| | For the year ended December 31 | | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2019** | **2020** | **2020** | **2021** |
| **Number of Same Stores** | | | | | | |
| Mature-stage clinics | 16 | | 22 | | 24 | |
| Developing-stage clinics | 6 | | 8 | | 10 | |
| Newly-established clinics | 0 | | 0 | | 0 | |
| **Total** | **22** | | **30** | | **34** | |
| **Same store sales** | | | | | | |
| *(in thousands of RMB)* | | | | | | |
| Mature-stage clinics | 701,423 | 831,989 | 1,013,635 | 1,196,970 | 486,452 | 722,954 |
| Developing-stage clinics | 154,381 | 181,646 | 157,271 | 208,654 | 79,581 | 140,659 |
| **Total** | **855,804** | **1,013,635** | **1,170,906** | **1,405,624** | **566,033** | **863,613** |

**Growth of the Hair-Related Healthcare Service Market in China**

Our financial results are driven primarily by the growing overall demand for hair-related healthcare services. Driven by the soaring prevalence of hair loss in a population that is increasingly beauty-conscious and with a burgeoning *per capita* income at its disposal, China's related healthcare market is expanding rapidly. According to Frost & Sullivan, the size of hair-related healthcare service market in China reached RMB18.4 billion in 2020, and is projected at RMB138.1 billion in 2030 with a CAGR of 22.3%. China's hair-related healthcare service market consists of two main parts – the hair transplant service market and the medical hair care service market. According to Frost & Sullivan, the size of the hair transplant service market in China reached RMB13.4 billion in 2020, and is projected at RMB75.6 billion in 2030 with a CAGR of 18.9%. China's medical hair care service market is still at an early stage, but is believed to harbor huge growth potential and it is expected to reach RMB62.5 billion in 2030 at a CAGR of 28.7%. As a leader in China's hair transplant industry, we are well-positioned to capture the growth of the China's hair transplant service market with our industry-leading operation and medical services capabilities. Conversely, a slowdown of the hair transplant market or a slowdown of the hair-related healthcare market in China may adversely affect our results of operations.

**Ability to Control Our Staff Costs**

Our success relies on our ability to attract, recruit and retain a team of skilled medical staff, including physicians and other medical professionals. In addition, we also rely on other employees for selling and marketing, administrative and research and development. Our staff costs constituted the largest component of our cost of sales and services, general and administrative expenses and research and development expenses, and the second largest component of our selling and marketing expenses. In 2018, 2019, 2020, and the six months ended June 30, 2021, our total employee benefits expenses (including those recorded in cost of sales and services, selling and marketing expenses, general and administrative expenses and research and development expenses) accounted for 28.3%, 30.2%, 30.2%, and 31.3%, respectively of our total revenue for the same periods. The number of our employees has been increasing along with the growth of our business, and the increases in the staff costs during the Track Record Period were primarily attributable to such increase in the headcount and increased compensation level in order to recruit and retain medical professionals and other employees. Being able to do this would provide us with a competitive advantage over our competitors. The following table sets out a sensitivity analysis of the effect of the fluctuations of our staff costs during the Track Record Period, assuming no change of any other costs and expenses:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| **Staff costs (decrease)/increase** | Impact on our profit before tax for the year | | | | |
| (15)% | 39,727 | 55,543 | 74,233 | 29,197 | 49,503 |
| (10)% | 26,485 | 37,029 | 49,489 | 19,465 | 33,002 |
| (5)% | 13,242 | 18,514 | 24,744 | 9,732 | 16,501 |
| 5% | (13,242) | (18,514) | (24,744) | (9,732) | (16,501) |
| 10% | (26,485) | (37,029) | (49,489) | (19,465) | (33,002) |
| 15% | (39,727) | (55,543) | (74,233) | (29,197) | (49,503) |

We expect that staff costs to continue to be one of our significant costs and expenses going forward, particularly in light of the continued expansion and ramping up of our clinic network. Therefore, any change in staff costs, including salaries and bonuses, social insurance, welfare and other benefits, and other forms of incentives, could affect our results of operations. To save costs and improve our operational efficiency, we also plan to adopt technological solutions to improve the professionalism of our services and reduce reliance on manual labor. For example, we plan to develop automated follicle detectors, to improve the accuracy and automation of hair diagnosis.

**Selling and Marketing Expenses**

We recognize the importance of long-term investment in brand building and consumer education. Therefore, in line with other players in the consumer medical service industry, particularly the hair-related healthcare industry, we made significant investments in promoting customer awareness of our brand and our services, and expect to continue to do so in the near future. As hair-related healthcare service is one type of consumer medical service, it requires long-term investment on consumer education. And such network-wide consumer education and brand exposure will increase our brand recognition and consumer stickiness. As a result, during the Track Record Period, our selling and marketing expenses represented the largest components of our revenue, and accounted for 49.6%, 53.1%, 47.6%, and 54.9% of our total revenue in 2018, 2019, 2020, and the six months ended June 30, 2021, respectively. We have designed a comprehensive marketing strategy, and utilize a combination of online and offline channels to promote our brand and our services, using various forms of advertisements, including brand advertising and performance-based advertising. For brand advertising, it usually takes time to convert the advertising effects into profitable revenue, but with long-term benefit to our brand reputation and awareness. In addition, due to the marketing strategies for a particular period, there are differences in timing of brand advertising placement. For instance, we strategically focused on brand advertising during the NBA season in the first half of 2021 and targeted NBA audience, which consists of a large percentage of male audience, as our potential customers. During the same period, we started to focus on *Svenson*-related brand awareness and had more promotional activities in this regard. Both of them led to a higher selling and marketing expenses in the first half of 2021. However, in 2020, we focused on brand advertising in the second half of 2020. For example, our brand advertising on subways, elevators and buses was substantially increased during this period. Therefore, the timing of our brand advertising placement had an impact on the fluctuation of our financial results. By contrast, for performance-based advertising, it usually takes a shorter period of time to realize its commercial results.

Selling and marketing expenses have historically been, and are expected to continue to be, a large portion of our overall costs and expenses. Our ability to control selling and marketing expenses may significantly affect our profitability. Going forward, we expect to continuously evaluate and monitor the effectiveness and efficiency of our promotion activities and marketing spending in order to further enhance our brand awareness and attract a broader customer base in a sustainable manner.

**BASIS OF PRESENTATION**

Our historical financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The financial information has been prepared under the historical cost convention, except for certain financial assets, which are carried at fair value. The preparation of historical financial information in conformity with HKFRS requires the use of certain critical accounting estimates, as well as our management's judgment in applying our accounting policies. See Note 4 to the Accountant's

Report in Appendix I to this document for the areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information. We have applied HKFRS 16 "Leases" consistently during the Track Record Period, which became effective for annual periods beginning on or after January 1, 2018.

## SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future. Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to the Accountant's Report in Appendix I to this document.

### Significant Accounting Policies

#### *Revenue Recognition*

Revenues are recognized when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if our performance:

- provides all the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services. The progress towards complete satisfaction of performance obligation is measured based on direct measurements of the value of individual services transferred by us to the customer. If contracts involve the sale of multiple goods, goods followed by related services, or multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin, depending on the availability of observable information.

We offer discounts to the customers, and revenue is recognized based on the price specified in the contract, net of the discount. When either party to a contract has performed, we present the contract in the balance sheets as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. If a customer pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract as a contract liability when the payment is made or the receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. 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 we ultimately expect it will have to return to the customer. We update its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

*Hair Transplant*

For hair transplant services, customers normally receive treatment which contains various treatment components (e.g. pre-surgery medical checking, surgery treatment and post-surgery cleaning) that are all highly relevant and regarded as one performance obligation. Revenue from provision of hair transplantation services recognized at a point in time when the services have been rendered to customers.

We usually receive the payment from customers in advance before the services are rendered. The majority of the customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. We have estimated the refund in respect of unsatisfactory services rendered based on our past experience with customers and recognized as refund liabilities. The contract liability is recognized as revenue when the related services are rendered. Sales of hair transplant related goods are recognized when an entity has transferred the products to the customer, and the customer has obtained control of the products.

*Medical Hair Care*

We provide medical hair care services in package which is accounted as multiple elements of services. Revenue from medical hair care services is recognized 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. Normally, there is no expiry date for the packages while majority of the customers take up all the services in the packages within two years. We do not generate any forfeited income from the service packages. We usually receive the payment from customers in advance before the services are rendered. The majority of the customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. We have estimated the refund in respect of unsatisfactory services rendered based on our past experience with customers and recognized as refund liabilities. The contract liability is recognized as revenue when the related services are rendered. And no revenue is recognized with respect to prepaid service packages until the services have been rendered to customers. Sales of goods related to medical hair care are recognized when an entity has transferred the products to the customer, and the customer has obtained control of the products.

*Other*

We also provide routine hair care services in package which is accounted as multiple elements of services. Revenue from routine hair care services is recognized 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. Normally, there is no expiry date for the packages while majority of the customers take up all the services in the packages within two years. We do not generate any forfeited income from the service packages. We usually receive the payment from customers in advance before the services are rendered. Customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The contract liability is recognized as revenue when the related services are rendered. And no revenue is recognized with respect to prepaid service packages until the services have been rendered to customers. Sales of goods related to routine hair care are recognized when an entity has transferred the products to the customer, and the customer has obtained control of the products.

During the Track Record Period, we only recognized revenue when we provided relevant services with respect to prepaid service packages and no unused prepaid package was canceled or expired, and therefore, there was nil forfeiture rate during the same period.

***Share-Based Compensation***

Share-based compensation benefits are provided to employees, and information relating to these schemes is set out in Note 23 to the Accountant's Report in Appendix I to this document. The fair value of awarded shares granted to employees less amount paid by employees is recognized as an employee benefits expense over the relevant service period, being the vesting period of the shares, and the credit is recognized in equity in the share-based compensation reserve. The fair value of the shares is measured at the grant date. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognized in profit or loss and the share-based compensation reserve. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such shares are reversed effective at the date of the forfeiture.

***Leases***

We lease buildings as lessee. Rental contracts are typically made for fixed periods of 1 to 15 years. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by us. Contracts may contain both lease and non-lease components. We allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (if applicable):

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by us under residual value guarantees; and

- the exercise price of a purchase option if we are reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in us, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, we:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by us, which does not have recent third-party financing, and makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following (if applicable):

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received; and

- any initial direct costs.

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

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

A lessee normally recognizes an asset and a lease liability when it enters into most leases under HKFRS 16. We consider the lease as a single transaction in which the asset and liability are integrally linked, so there is no net temporary difference at inception. Subsequently, as differences arise on settlement of the liability and the amortisation of the leased asset, there will be a net temporary difference on which deferred tax is recognized.

Amendment to HKFRS 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 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 June 30, 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after June 1, 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended December 31, 2020, certain monthly lease payments for the leases of our workspaces have been reduced or waived by the lessors upon reducing the scale of production as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. We have early adopted the amendment on January 1, 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended December 31, 2020.

***Intangible Assets***

We recognized goodwill due to the acquisition of NU/Hart on May 31, 2021, and the good will has been allocated to NU/Hart for impairment testing. On June 30, 2021, management performed an impairment assessment on the goodwill. The recoverable amounts of the hair transplant business operated by NU/Hart have been assessed by an independent valuer and determined based on value-in-use ("VIU") calculation. The calculation used cash flow projections based on financial budgets covering a five-year period approved by management. The following table sets forth each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill as of June 30, 2021:

| | |
|---|---|
| Revenue 2021 (% annual growth rate) | 6% |
| Revenue 2022 to 2025 (% annual growth rate) | 15% |
| Revenue 2026 (% annual growth rate) | 8% |
| Terminal growth rate | 2% |
| Pre-tax discount rate | 18.3% |

As of June 30, 2021, the recoverable amount of RMB32 million calculated based on VIU calculation exceeded its carrying value of RMB30 million by RMB2 million. The management has considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount to exceed their recoverable amount.

Management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets forth all possible changes to the key assumptions of the impairment test and the changes taken in isolation in the VIU calculations that would remove the remaining headroom as of June 30, 2021:

| | |
|---|---|
| Annual revenue growth rate | -0.12% |
| Discount rate | +0.24% |

The goodwill of approximately RMB25 million represents the excess of the acquisition consideration transferred over the fair value of the net identifiable assets acquired as of the acquisition date May 31, 2021. As of June 30, 2021, the recoverable amount of the CGU in NU/Hart is estimated to exceed the carrying amount of the CGU by approximately RMB2 million. Such recoverable amount of the CGU is determined based on VIU calculations. The calculation requires us to estimate the future cash flow expected to arise from CGU and a suitable discount rate in order to calculate the present value. As at recoverable amount valuation date, it has been only one month since the acquisition date and no significant changes in expected future cash flows generated from the CGU as well as the discount rate, the management expects that the recoverable amount would not increase significantly from the fair value of the net identifiable assets acquired as at the acquisition date. Therefore, the headroom only amounts to RMB2 million.

Our Directors considered there is no reasonably possible change in key parameters would cause the carrying amount of each CGU to exceed its recoverable amount. By reference to the recoverable amount assessed by the independent valuer as of June 30, 2021, our Directors determined that no impairment provision on goodwill for the six months ended June 30, 2021.

**Critical Accounting Estimate**

***Estimation of Variable Consideration for Refund to Customers***

We estimate variable considerations to be included in the transaction price for the refund to customers in respect of unsatisfactory services rendered. We have estimated the refund which is based on our past experience with customers. Any significant changes in experience as compared to historical patterns will impact the expected refund estimated by us. We update our assessment of expected refund on a regular basis and the refund liabilities are adjusted accordingly.

***Recognition of Share-Based Compensation Expenses***

An equity-settled share-based compensation plan was granted to the employees. The directors have used discounted cash flow method to determine the total fair value of the underlying shares granted to employees, which is to be expensed over the vesting period. Significant estimate on key assumptions, such as discount rate, risk-free interest rate, expected volatility and discount for lack of marketability, is required to be made by the directors in applying the discounted cash flow method. For details, see Note 23 to the Accountant's Report in Appendix I to this document. As the awards granted in equity-settled share-based compensation plan are conditional on a Qualified Initial Public Offerings ("**QIPO**"), the directors have estimated the QIPO's probability and QIPO date when they calculated share-based compensation expenses at each reporting period end. Since QIPO condition is considered as vesting condition, we also need to estimate on the basis of the most likely outcome.

***Income Taxes***

We subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination are made.

Yonghe Investment is qualified as HNTEs and is entitled to the preferential income tax rate of 15%. The qualification is valid 3 years, and upon expiry, we are required to submit the application to relevant government authority to certify the high-tech qualification. If we disqualified from the high-tech certification, we cannot enjoy the preferential income tax, and the change in tax rate will affect the current and deferred income taxes in the period in which the change takes place.

Deferred income tax assets relating to tax losses and unused tax credits are recognized as management considers it is probable that future taxable profit will be available against which the tax losses and tax credits can be utilised. Future taxable profit includes the profit from operating results and taxable profits of future periods reversed of taxable temporary differences. Estimates and judgement are required in determining the timing and amount of future taxable profit generated. In case where the actual future taxable profit generated are less than expected, or change in facts and circumstances which result in revision of future taxable profit estimation, a material reversal or further recognition of deferred tax assets may arise, which will be recognized in the consolidated income statement in the period in which such a reversal or further recognition takes place.

## DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of comprehensive income for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* | *RMB'000* | *% of Revenue* |
| **Revenue** | 934,326 | 100.0 | 1,224,477 | 100.0 | 1,638,297 | 100.0 | 601,563 | 100.0 | 1,053,400 | 100.0 |
| Cost of sales and services | (232,207) | (24.9) | (335,379) | (27.4) | (416,667) | (25.4) | (166,012) | (27.6) | (277,983) | (26.4) |
| **Gross profit** | 702,119 | 75.1 | 889,098 | 72.6 | 1,221,630 | 74.6 | 435,551 | 72.4 | 775,417 | 73.6 |
| Selling and marketing expenses | (463,681) | (49.6) | (650,262) | (53.1) | (779,611) | (47.6) | (246,631) | (41.0) | (577,947) | (54.9) |
| General and administrative expenses | (93,952) | (10.1) | (129,962) | (10.6) | (162,022) | (9.9) | (69,443) | (11.5) | (91,142) | (8.7) |
| Research and development expenses | (7,807) | (0.8) | (8,869) | (0.7) | (11,815) | (0.7) | (5,456) | (0.9) | (6,151) | (0.6) |
| Net impairment losses on financial assets | (1,633) | (0.2) | (34) | – | (487) | – | (279) | – | (376) | – |
| Other income | 933 | 0.1 | 1,443 | 0.1 | 6,304 | 0.4 | 1,354 | 0.2 | 2,133 | 0.2 |
| Other gains and losses, net | (7,021) | (0.8) | (3,373) | (0.3) | (7,738) | (0.5) | (5,766) | (1.0) | 7,211 | 0.7 |
| **Operating profit** | 128,958 | 13.8 | 98,041 | 8.0 | 266,261 | 16.3 | 109,330 | 18.2 | 109,145 | 10.4 |
| Finance costs – net | (17,669) | (1.9) | (26,518) | (2.2) | (35,347) | (2.2) | (15,789) | (2.6) | (20,270) | (1.9) |
| **Profit before income tax** | 111,289 | 11.9 | 71,523 | 5.8 | 230,914 | 14.1 | 93,541 | 15.5 | 88,875 | 8.4 |
| Income tax expense | (57,789) | (6.2) | (35,899) | (2.9) | (67,582) | (4.1) | (28,082) | (4.7) | (48,434) | (4.6) |
| **Profit for the year/period** | 53,500 | 5.7 | 35,624 | 2.9 | 163,332 | 10.0 | 65,459 | 10.9 | 40,441 | 3.8 |
| **Other comprehensive income** | | | | | | | | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | | | | | | | | |
| – Currency translation differences | – | – | – | – | – | – | – | – | 710 | 0.1 |
| *Items that will not be reclassified to profit or loss* | | | | | | | | | | |
| – Currency translation differences | – | – | – | – | – | – | – | – | (1,657) | (0.2) |
| **Total comprehensive income for the year/period** | 53,500 | 5.7 | 35,624 | 2.9 | 163,332 | 10.0 | 65,459 | 10.9 | 39,494 | 3.7 |
| **Profit and total comprehensive income for the year/period attributable to:** | | | | | | | | | | |
| Owners of the Company | 53,500 | 5.7 | 35,624 | 2.9 | 163,332 | 10.0 | 65,459 | 10.9 | 39,494 | 3.7 |

## Revenue

### *Revenue by Business Line*

Our revenue is generated from providing (i) hair transplant services, including traditional hair transplant and aesthetic hair transplant such as hairline lowering, eyebrow transplant, and sideburn transplant; (ii) medical hair care services, which mainly include the medical hair care treatment we offered in *Svenson Medical Hair Care Center* (史雲遜醫學健髮中心) in each of our clinics in mainland China; and (iii) others, which mainly include services provided and goods sold by stand-alone *Svenson* stores. For details, see "Business — Overview of Our Services." The table below sets forth a breakdown of our revenue by business line for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Hair transplant services | 918,014 | 98.3 | 1,197,775 | 97.8 | 1,412,744 | 86.2 | 567,225 | 94.3 | 789,522 | 75.0 |
| Medical hair care services | – | – | 15,060 | 1.2 | 213,214 | 13.0 | 30,687 | 5.1 | 254,189 | 24.1 |
| Others [(1)] | 16,312 | 1.7 | 11,642 | 1.0 | 12,339 | 0.8 | 3,651 | 0.6 | 9,689 | 0.9 |
| **Total** | 934,326 | 100.0 | 1,224,477 | 100.0 | 1,638,297 | 100.0 | 601,563 | 100.0 | 1,053,400 | 100.0 |

*Note:*

(1) *mainly include revenue from Svenson Hair Care Centers (史雲遜健髮中心) we acquired in December 2017. These Svenson Hair Care Centers are not medical institutions and primarily engaged in providing routine hair restoration products (such as anti-hair loss shampoo and head massager) and services (such as scalp cleaning and massaging) without using medicines or medical devices.*

### *Revenue by Development Stage*

Our clinics can be categorized into three groups based on their respective opening date. As of the Latest Practicable Date, we had 29 mature-stage clinics, 18 developing-stage clinics, and six newly-established clinics (including one acquired clinic). The table below sets forth a breakdown of our revenue by development stage for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Mature-stage clinics | 555,038 | 59.4 | 831,989 | 67.9 | 1,196,970 | 73.1 | 415,415 | 69.1 | 722,954 | 68.6 |
| Developing-stage clinics | 300,766 | 32.2 | 338,917 | 27.7 | 328,511 | 20.1 | 150,618 | 25.0 | 234,541 | 22.3 |
| Newly-established clinics | 62,210 | 6.7 | 41,929 | 3.4 | 100,477 | 6.1 | 31,879 | 5.3 | 86,216 | 8.2 |
| – Acquired clinic | – | – | – | – | – | – | – | – | 754 | – |
| Others [(1)] | 16,312 | 1.7 | 11,642 | 1.0 | 12,339 | 0.7 | 3,651 | 0.6 | 9,689 | 0.9 |
| **Total** | 934,326 | 100.0 | 1,224,477 | 100.0 | 1,638,297 | 100.0 | 601,563 | 100.0 | 1,053,400 | 100.0 |

*Note:*

(1) *mainly include revenue from Svenson Hair Care Centers (史雲遜健髮中心) we acquired in December 2017. These Svenson Hair Care Centers are not medical institutions and primarily engaged in providing routine hair restoration products and services without using medicines or medical devices.*

### *Revenue by Geographical Regions*

The table below sets forth a breakdown of our revenue by geographical regions for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Eastern China[(1)] | 259,128 | 27.7 | 369,918 | 30.2 | 563,896 | 34.4 | 196,273 | 32.6 | 363,024 | 34.4 |
| Southern China [(2)] | 174,960 | 18.7 | 261,075 | 21.3 | 348,583 | 21.3 | 122,381 | 20.3 | 249,233 | 23.7 |
| Northern China[(3)] | 191,221 | 20.5 | 208,752 | 17.0 | 234,407 | 14.3 | 91,744 | 15.3 | 128,929 | 12.2 |
| Southwestern China[(4)] | 97,950 | 10.5 | 121,176 | 9.9 | 184,969 | 11.3 | 71,100 | 11.8 | 100,996 | 9.6 |
| Central China [(5)] | 120,146 | 12.9 | 126,507 | 10.3 | 143,004 | 8.7 | 53,190 | 8.9 | 96,804 | 9.2 |
| Northwestern China[(6)] | 45,463 | 4.9 | 72,122 | 5.9 | 93,740 | 5.7 | 41,480 | 6.9 | 67,553 | 6.4 |
| Northeastern China[(7)] | 29,146 | 3.1 | 53,285 | 4.4 | 57,359 | 3.5 | 21,744 | 3.6 | 36,418 | 3.5 |
| Hong Kong[(8)] | – | – | – | – | – | – | – | – | 754 | 0.1 |
| Others[(9)] | 16,312 | 1.7 | 11,642 | 1.0 | 12,339 | 0.8 | 3,651 | 0.6 | 9,689 | 0.9 |
| **Total** | **934,326** | **100.0** | **1,224,477** | **100.0** | **1,638,297** | **100.0** | **601,563** | **100.0** | **1,053,400** | **100.0** |

*Notes:*

(1) Including Shanghai, Zhejiang, Jiangsu, Fujian, Jiangxi, An'hui and Shandong.
(2) Including Guangdong and Guangxi.
(3) Including Beijing, Tianjin, Hebei and Shanxi.
(4) Including Sichuan, Guizhou, Yunnan and Chongqing.
(5) Including Henan, Hubei and Hunan.
(6) Including Shaanxi, Gansu and Xinjian
(7) Including Heilongjiang and Liaoning.
(8) Including one acquired clinic, Nu/Hart Hair, in Hong Kong.
(9) Including the four Svenson Hair Care Centers that are not medical institutions, three of which are located in Shanghai and the remaining one is located in Beijing.

## Cost of Sales and Services

### *Cost of Sales and Services by Nature*

Our cost of sales and services primarily consists of (i) staff costs, representing wages, benefits and bonuses for our business operation personnel, such as physicians and other medical staff; (ii) amortization and depreciation charges, which primarily include amortization and depreciation of lease and medical equipment mainly used to provide hair transplant services; (iii) cost of inventories and consumables, primarily including (a) hair care products and (b) sterilization supplies, reagent and pharmaceuticals used in providing hair transplant services; (iv) operation related expenses, which primarily include utilities and maintenance fee; and (v) others expenses, primarily including non-deductible input taxes and surcharges. The following table sets forth a breakdown of our cost of sales and services by nature for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Staff costs | 105,807 | 45.6 | 145,445 | 43.4 | 165,946 | 39.8 | 64,781 | 39.0 | 116,881 | 42.0 |
| Amortization and depreciation charges | 75,423 | 32.5 | 114,948 | 34.3 | 141,686 | 34.0 | 66,190 | 39.9 | 86,802 | 31.2 |
| Cost of inventories and consumables | 25,941 | 11.2 | 40,405 | 12.0 | 63,951 | 15.3 | 19,831 | 11.9 | 46,307 | 16.7 |
| Operation related expenses | 14,430 | 6.2 | 17,212 | 5.1 | 21,164 | 5.1 | 10,437 | 6.3 | 12,387 | 4.5 |
| Other expenses | 10,606 | 4.5 | 17,369 | 5.2 | 23,920 | 5.8 | 4,773 | 2.9 | 15,606 | 5.6 |
| **Total** | 232,207 | 100.0 | 335,379 | 100.0 | 416,667 | 100.0 | 166,012 | 100.0 | 277,983 | 100.0 |

### *Cost of Sales and Services by Business Line*

The following table sets forth our cost of sales and services by business line for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Hair transplant services | 214,247 | 92.3 | 311,075 | 92.8 | 351,600 | 84.4 | 149,706 | 90.2 | 217,216 | 78.1 |
| Medical hair care services | – | – | 10,244 | 3.1 | 55,909 | 13.4 | 12,906 | 7.8 | 56,372 | 20.3 |
| Others | 17,960 | 7.7 | 14,060 | 4.1 | 9,158 | 2.2 | 3,400 | 2.0 | 4,395 | 1.6 |
| **Total** | 232,207 | 100.0 | 335,379 | 100.0 | 416,667 | 100.0 | 166,012 | 100.0 | 277,983 | 100.0 |

## Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less cost of sales and services. In 2018, 2019, 2020 and the six months ended June 30, 2021, our gross profit was RMB702.1 million, RMB889.1 million, RMB1,221.6 million and RMB775.4 million, respectively. Gross profit margin represents our gross profit as a percentage of our revenue. In 2018, 2019, 2020 and the six months ended June 30, 2021, our gross profit margin was 75.2%, 72.6%, 74.6% and 73.6%, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | *Gross profit RMB'000* | *Gross profit margin %* | *Gross profit RMB'000* | *Gross profit margin %* | *Gross profit RMB'000* | *Gross profit margin %* | *Gross profit RMB'000* | *Gross profit margin %* | *Gross profit RMB'000* | *Gross profit margin %* |
| Hair transplant services | 703,767 | 76.7 | 886,700 | 74.0 | 1,061,144 | 75.1 | 417,519 | 73.6 | 572,306 | 72.5 |
| Medical hair care services | – | – | 4,816 | 32.0 | 157,305 | 73.8 | 17,781 | 57.9 | 197,817 | 77.8 |
| Others | (1,648) | (10.1) | (2,418) | (20.8) | 3,181 | 25.8 | 251 | 6.9 | 5,294 | 54.6 |
| **Total gross profit/overall gross profit margin** | 702,119 | 75.2 | 889,098 | 72.6 | 1,221,630 | 74.6 | 435,551 | 72.4 | 775,417 | 73.6 |

Our total gross profit is primarily affected by the gross profit of each of the services we offered in each year. We had increased gross profit during the Track Record Period primarily due to the increases in gross profit of our hair transplant services, which represented the largest component of our service offerings. In December 2017, we started to develop our other business offerings and acquired *Svenson* China. Leveraging our strong medical service capabilities and *Svenson* China's extensive experience in offering hair restoration products and services, we opened a *Svenson Medical Hair Care Center* (史雲遜醫學健髮中心) in each hair transplant clinic in mainland China under a "shop-in-shop" model to provide hair transplant patients with preoperative and postoperative medical services. Thereafter, we started to offer medical hair care services since the late 2019 and recorded relatively low gross profit and gross profit margin in medical hair care services during the initial stage of its operations. Furthermore, we recorded gross losses in other services in 2018 and 2019, primarily because we incurred more costs (for example, the amortization and depreciation charges in relation to rent of new leases and staff costs for hiring relevant employees) as compared to revenue at initial stage of *Svenson Hair Care Centers* (史雲遜健髮中心) and its business integration. In addition, we primarily focused on hair transplant services and started *Svenson*-related integration in late 2019, and therefore, our other services started to record positive gross profit and gross profit margin in 2020 and achieved robust growth in the six months ended June 30, 2021.

In addition, our overall gross profit margin is affected by our revenue mix due to the differences among the gross profit margins of our service offerings. During the Track Record Period, we experienced slight variation in our overall gross profit margin and our overall gross profit margin was relatively stable at 75.2%, 72.6%, 74.6%, 72.4% and 73.6% in 2018, 2019, 2020, six months ended June 30, 2020 and 2021, respectively.

- *Hair transplant services*: Our hair transplant services represented the largest component of our service offerings and the gross profit margin of such services was relatively stable at 76.7%, 74.0%, 75.1%, 73.6% and 72.5% in 2018, 2019, 2020, six months ended June 30, 2020 and 2021, respectively. However, our gross profit margin of hair transplant services may fluctuate sightly in certain period, and such fluctuation may lead to the variation of our overall gross profit margin. For instance, our gross profit margin of hair transplant services sightly decreased in 2019 as compared with that of 2018, primarily due to an increase in fix expenses, such as amortization and depreciation charges in relation to rent of new leases and staff costs for hiring employees. Such decrease in hair transplant services gross profit margin was attributable to the decrease in our overall gross profit margin in 2019.

- *Medical hair care services*: Since the late 2019, we started offering medical hair care services and had significant growth in gross margin, from 32.0% in 2019 to 73.8% in 2020 and from 57.9% for the six months ended June 30, 2020 to 77.8% for the six months ended June 30, 2021. We recorded relatively lower gross profit margin in 2019 and the first half of 2020, primarily because the *Svenson Medical Hair Care Center* business was at its initial stage and took time to grow the customer base.

- *Others*: We recorded negative profit margin for other services in 2018 and 2019. Since we acquired *Svenson* China in December 2017, it took time for us to transform the *Svenson* business and integrate such into our exiting service offerings. Since late 2019, we started to develop *Svenson Hair Care Centers* and recorded gross profit margin of 25.8%. In addition, as we continue to develop *Svenson Hair Care Centers*, we enjoyed greater economies of scale and recorded an increased gross profit margin from 6.9% for the six months ended June 30, 2020 to 54.6% for the six months ended June 30, 2021.

Going forward, we plan to further develop our medical hair-care services, continue to develop our *Svenson*-related brand awareness, and aim to provide a full-spectra of our hair-related healthcare service offerings. For details of our results of operations, see "— Results of Operations."

**Selling and Marketing Expenses**

Our selling and marketing expenses primarily consist of (i) marketing and promotion expenses, which primarily include service fees paid to the third-party marketing service providers to promote our brand and services; (ii) staff costs, representing wages, benefits and bonuses of our in-house sales and marketing team; (iii) travel and transportation expenses incurred by our in-house sales and marketing team; (iv) operation related expenses for sales and marketing team, which primarily include utilities, maintenance and rental payments; and (v) amortization and depreciation. The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Marketing and promotion expenses | | | | | |
| – Online channels[(1)] | | | | | |
| *– Performance-based advertising[(2)]* | *154,592* | *278,410* | *317,104* | *96,780* | *251,099* |
| *– Brand advertising[(3)]* | *23,010* | *87,056* | *64,903* | *20,404* | *63,684* |
| *Subtotal* | 177,602 | 365,466 | 382,007 | 117,184 | 314,783 |
| – Offline channels[(4)] | 150,490 | 92,673 | 125,660 | 31,323 | 74,653 |
| Staff costs | 98,021 | 142,243 | 220,623 | 79,143 | 153,295 |
| Travel expenses | 23,928 | 24,000 | 22,675 | 7,400 | 15,807 |
| Operation related expenses | 8,131 | 14,985 | 16,165 | 5,940 | 9,596 |
| Amortization and depreciation charges | 4,211 | 9,089 | 11,074 | 5,075 | 6,826 |
| Others | 1,298 | 1,806 | 1,407 | 566 | 2,987 |
| **Total** | 463,681 | 650,262 | 779,611 | 246,631 | 577,947 |

*Notes:*

(1) Advertisements posted in cooperation with large online channels in China such as Tencent, Baidu, Bytedance, Kuaishou, Weibo, Bilibili, etc.

(2) For performance-based advertisements, we are obligated to pay only when there are measurable results. The payment amounts were calculated based on the pricing models agreed between us and the advertising agents, with references to the relevant measurable metrics (e.g., cost-per-click (CPC), cost-per-mille (CPM), or cost-per-lead (CPL)). For example, we cooperated with Baidu and conducted search engine-based promotion. In addition, we also posted performance-based advertisements in collaboration with large social network sites and online communities such as Weibo, Bilibili, and TikTok.

(3) For brand advertisements, we are obligated to pay regardless of the results of such advertisements. The payment amounts were typically fixed amounts agreed between us and the advertising agents. For example, we designed an advertising campaign in cooperation with Tencent, which helped us promote our *Yonghe Hair Transplant* brand when broadcasting NBA games; we also cooperated with Toutiao and posted a number of advertisements to raise the awareness of our *Svenson* brand.

(4) Advertisements posted in cooperation with offline channels such as subway stations, office buildings, shopping complexes and cinemas.

### General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) staff costs, representing share-based compensation expenses, wages, benefits and bonuses of our administrative staff; (ii) operation related expenses for our administrative team, which primarily include conference fees, utilities, maintenance fees and rental payments; (iii) professional and consulting service fees incurred in relation to audit services, rental agencies and internet services; (iii) amortization and depreciation charges in relation to our properties and office equipment; and (iv) travelling and entertainment expenses. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Staff costs | 55,012 | 75,099 | 99,357 | 46,212 | 55,166 |
| Operation related expenses | 14,937 | 18,559 | 11,835 | 3,841 | 6,998 |
| Professional and consulting service fees | 2,188 | 2,232 | 5,708 | 4,245 | 3,168 |
| Amortization and depreciation charges | 4,773 | 5,565 | 6,216 | 3,116 | 3,358 |
| Travel expenses | 5,135 | 5,858 | 4,677 | 994 | 2,730 |
| [**REDACTED**] expenses | – | – | 5,027 | – | 8,601 |
| Others | | | | | |
| – Agency fees[(1)] | 2,867 | 1,662 | 5,858 | 2,803 | 534 |
| – Bank transaction fees | 3,648 | 4,335 | 4,943 | 1,792 | 3,354 |
| – Human resource service fees[(2)] | 1,878 | 7,768 | 6,742 | 279 | 1,341 |
| – Disability security funds | 711 | 1,954 | 1,052 | 155 | 307 |
| – Non-deductible input taxes and surcharges[(3)] | – | – | 6,185 | 1,858 | 4,126 |
| – Others[(4)] | 2,803 | 6,930 | 4,422 | 4,148 | 1,459 |
| **Total** | 93,952 | 129,962 | 162,022 | 69,443 | 91,142 |

*Notes:*

(1) primarily include business agency, tax agency, and rental agency service fees. Our agency fees decreased by RMB1.2 million in 2019 as compared with that of 2018, primarily because in 2018, we paid a substantial amount of service fees to (i) a market research agency for conducting market and customer profiling researches; and (ii) a tax agency for assisting us in the application of the "high-tech enterprise" status. Such services were provided on a one-off basis and we did not incur such service fees in 2019. Further, our agency fees increased significantly in 2020, primarily because we paid a significantly increased amount of services fees in 2020 to (i) rental agencies for property rental services in relation to our new clinic openings; and (ii) advertising agencies for conducting reviews for the advertisements we posted to ensure the quality of our advertainments. Such increases were generally in line with our business growth. In addition, our agency fees decreased by RMB2.3 million for the six months ended June 30, 2021 as compared with that of the six months ended June 30, 2020, primarily because we had not incurred any substantial rental agency service fees in the first half of 2021, which was in line with the pace of our new clinic openings.

(2) represent service fees paid to human resource agencies for providing recruitment services and employee training services. Our human resource service fees have steadily increased over the years primarily due to (i) the increased needs for qualified employees to support our business growth; and (ii) the increased needs for employee trainings to ensure our compliance with the applicable laws and regulations, and to maintain our service quality. Our human resource service fees slightly decreased in 2020 as compared with that of 2019, mainly due to the reduced spending in recruitment services and employee training services as a result of the outbreak of the COVID-19 pandemic.

(3) primarily include input taxes that could not be deducted against output taxes. With respect to a number of our intra-group transactions, the input taxes incurred by our clinics could not be deducted against the corresponding output taxes because the hair transplant business is exempted from VAT. For instance, since 2020, the Group started to provide management services (including human recourses and finance) to local clinics in order to standardize our operation and implement centralized quality control. And such taxes for service expenses could not be deducted against the output taxes by each local clinic. As a result, when we consolidated our results of operations, we offset the income and expenses arising from intra-group transactions and recorded non-deductible input taxes and surcharges of RMB6.2 million in 2020 and RMB4.1 million in the six months ended June 30, 2021.

(4) primarily include logistics costs, property insurance costs, uniform fees, and other working capital related fees.

**Research and Development Expenses**

Our research and development expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses of our R&D staff; (ii) professional service fees in relation to research and development of new technologies related to hair transplantation; (iii) operation related expenses, including utilities, maintenance fee and rental expenses. The following table sets forth a breakdown of our research and development expenses for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Staff costs | 6,006 | 7,502 | 8,960 | 4,510 | 4,680 |
| Professional service fees | 115 | 388 | 935 | 33 | 1,039 |
| Travel expenses | 358 | 104 | 570 | 144 | 31 |
| Operation related expenses | 834 | 486 | 541 | 375 | 271 |
| Depreciation charges | 42 | 103 | 149 | 97 | 81 |
| Other expenses[(1)] | 452 | 286 | 660 | 297 | 49 |
| **Total** | 7,807 | 8,869 | 11,815 | 5,456 | 6,151 |

*Note:*

(1) primarily include cost of materials and consumables used for research and development activities.

**Net Impairment Loss on Financial Assets**

Our net impairment losses on financial assets primarily consist of impairment made for trade and other receivables. In 2018, 2019, 2020 and the six months ended June 30, 2021, we recorded net impairment losses on financial assets of RMB1.6 million, RMB34,000, RMB0.5 million and RMB0.4 million, respectively.

**Other Income**

Our other income consists of (i) government grants, representing short-term working subsidies received from the local governments in connection with the business development, rewards for financial and employment contribution and capital expenditure incurred on certain projects, income-based tax credits, all of which were one-off in nature; and (ii) VAT additional deduction, mainly represents the VAT deduction and tax-free income. The following table sets forth a breakdown of our other income for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Government grants | 24 | 505 | 4,082 | 601 | 493 |
| VAT additional deduction | – | 938 | 1,802 | 629 | 1,640 |
| Others[(1)] | 909 | – | 420 | 124 | – |
| **Total** | 933 | 1,443 | 6,304 | 1,354 | 2,133 |

*Note:*

(1) represented income generated from subleasing office space.

**Other Gains and Losses – Net**

During the Track Record Period, our other gains primarily comprised (i) compensation received from a landlord in relation to the early-termination of a property lease by such landlord; and (ii) gains on disposal of subsidiaries, namely, Shenzhen Yonghe Meidu Medical Beauty Clinic ("**Shenzhen Yonghe Meidu**") and Nanning Fangguanrui Cosmetic Clinic ("**Nanning Fangguanrui**"). With respect to (i), we entered into a lease agreement in September 2019 with Wuhan Junheng Property Management Co. Ltd., a property management company, for our newly-established clinic in Shanghai. The property we leased was located at Huangpu district, Shanghai, with a total GFA of approximately 6,628.02 sq.m. In November 2019, the lease agreement was unilaterally terminated by the property management company without just or sufficient cause. According to the lease agreement, the property management company was in breach of the contract and we were eligible to receive the refund (consisting of 2-month advanced rental fees of approximately RMB2.6 million and 3-month rental deposits of approximately RMB3.8 million) as well as compensation due to the landlord's breach. We recorded compensation of RMB6.4 million after we had received such payments in full in June 2021 through our negotiation. With respect to (ii), we received cash payment of RMB2.4 million from a network platform company based in Beijing for the disposal of Shenzhen Yonghe Meidu, and cash payment of RMB1.1 million from an individual entrepreneur for the disposal of Nanning Fangguanrui. To the best knowledge of our Directors, each of these two purchasers was an independent third party to our Company. We made these disposals because as our business scales in Shenzhen and Nanning developed, our management team determined that the spaces where Shenzhen Yonghe Meidu and Nanning Fangguanrui were located were no longer sufficient to satisfy our increased business scale and the needs of the local patients. Therefore, in order to enhance patient experience, we relocated the clinics in Shenzhen and Nanning to newer, and larger, locations, and disposed of the old clinics after the relocations were completed. Our Directors confirm that the consideration for the disposals were determined after arms' length negotiations between the parties, and during such negotiations, we primarily considered (a) the value of the remaining lease term with respect to such properties; (b) the residual value of the interior decoration and fixtures of such properties (including the air conditioning system, fire safety facilities, and other security facilities); and (c) the various costs that need to be incurred by an independent third party in securing commercial properties with location and gross floor areas similar to that of our old clinics. Prior to the disposal, Shenzhen Yonghe Meidu and Nanning Fangguanrui were profit-making. None of Shenzhen Yonghe Meidu and Nanning Fangguanrui was the subject of any material non-compliant incidents, claims, litigation or legal proceedings (whether

actual or threatened) during the Track Record Period and up to the time of disposal. During the same period, our other expenses and losses primarily comprised losses on property, plant and equipment and donation to Wuhan during the COVID-19 epidemic. The following table sets forth a breakdown of our other gains and losses – net for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Compensation from the early-termination of a property lease | – | – | – | – | 6,431 |
| Gains on disposal of subsidiaries | 2,400 | 1,100 | – | – | – |
| Losses on disposal of property, plant and equipment | (5,704) | (1,849) | (3,984) | (3,597) | (451) |
| Donation | – | – | (1,000) | (1,000) | – |
| Compensation expenditure to customers | (394) | (297) | (2) | – | – |
| Others[(1)] | (3,323) | (2,327) | (2,752) | (1,169) | 1,231 |
| Total | (7,021) | (3,373) | (7,738) | (5,766) | 7,211 |

*Note:*

(1) primarily include gains or losses of termination of lease, fixed assets inventory losses, inventory obsolescence and penalty expenses primarily in relation to advertising non-compliance.

**Finance Costs – Net**

During the Track Record Period, our finance income comprised interest income of bank savings. During the same period, our finance costs comprised interest expenses on borrowings and interest on lease liabilities. The following table sets forth a breakdown of our net finance costs for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Finance income** | | | | | |
| Interest income on current deposits | 139 | 210 | 941 | 218 | 2,408 |
| **Finance costs** | | | | | |
| Interest expenses for lease liabilities | (17,808) | (25,453) | (34,800) | (14,982) | (21,528) |
| Interest expenses on bank borrowings | – | (1,275) | (1,488) | (1,025) | (1,150) |
| **Finance costs – net** | (17,669) | (26,518) | (35,347) | (15,789) | (20,270) |

**Income Tax Expense**

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

***Mainland China***

Our income tax expenses consist of current and deferred income taxes payable in the PRC by our subsidiaries. Income tax provision in respect of our operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year or period, based on existing legislation and interpretations and practices in respect thereof. In addition, certain of our subsidiaries in the PRC are qualified as small and micro enterprises under the relevant tax rules and regulations of the PRC, and accordingly, the part of their taxable income not exceeding RMB3 million are subject to a reduced corporate income tax rate of 20% during the Track Record Period. Other than the above-mentioned subsidiary, our other PRC Operating Entities are subject to standard income tax rate of 25% pursuant to the EIT Law and related regulations.

During the Track Record Period, we incurred income tax expense of RMB57.8 million, RMB35.9 million, RMB67.6 million, RMB28.1 million and RMB48.4 million in 2018, 2019, 2020, and the six months ended June 30, 2020 and 2021, representing an effective tax rate of 51.9%, 50.2%, 29.3%, 30.0% and 54.5%, respectively. Our effective income tax rate is calculated by dividing income tax expense by profit before income tax. Our effective income tax rate during the Track Record Period were above the 25% statutory tax rate, which were mainly due to the increase in tax adjustment on advertising expenses.

Pursuant to the EIT Law and related regulations, the pre-tax deduction for advertising expenses is limited to the 15% of the revenue in its current year, and the excess will be carried forward for deduction in the following years. Therefore, according to the EIT law, the taxable income was higher than our profit before income tax, which in turn resulting a higher effective income tax rate. In addition, our effective tax rate decreased significantly from 50.2% in 2019 to 29.3% in 2020, primarily due to the significant increase in our revenue in 2020 corresponding with the increased pre-tax deduction for advertising expenses. Our effective tax rate further increased from 30.0% in 2020 to 54.5% in six months ended June 30, 2021, primarily due to (i) an increase in tax expenses due to the payment of shares transfer of Beijing Haiyouyou during our Reorganization and (ii) a decreased pre-tax deduction for advertising expenses since the advertising expenses for the relevant period were above 15% of the revenue.

***Cayman Islands***

Our Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax.

***British Virgin Islands***

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

***Hong Kong***

The 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.

**Operating Profit and Profit for the Year**

For the years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021, our operating profit amounted to RMB129.0 million, RMB98.0 million, RMB266.3 million, and RMB109.1 million, respectively, with an operating margin of 13.8%, 8.0%, 16.3% and 10.4% for the respective period.

As a result of the above, for the years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021, our profit for the year amounted to RMB53.5 million, RMB35.6 million, RMB163.3 million and RMB40.4 million, respectively.

## RESULTS OF OPERATIONS

### Six Months Ended June 30, 2021 Compared with Six Months Ended June 30, 2020

***Revenue***

Our revenue increased from RMB601.6 million for the six months ended June 30, 2020 to RMB1,053.4 million for the six months ended June 30, 2021.

*Revenue from Hair Transplant Services*

Our revenue from hair transplant services increased from RMB567.2 million for the six months ended June 30, 2020 to RMB789.5 million for the six months ended June 30, 2021 due to the organic growth our existing clinics and the sales ramp up for our newly established clinics. In addition, due to the continued sales and marketing efforts, we have enhanced our brand recognition with strong presence in the hair transplant industry, thus, we have attracted more customers for hair transplant services. The number of hair transplant patients increased by 48.3% from 19,883 for the six months ended June 30, 2020 to 29,480 for the six months ended June 30, 2021.

*Revenue from Medical Hair Care Services*

Our revenue from medical hair care services increased from RMB30.7 million for the six months ended June 30, 2020 to RMB254.2 million for the six months ended June 30, 2021 due to the continued robust growth of medical hair care services since we started to develop such services in late 2019. Alongside the rapid growth of hair transplant services, it creates a synergistic effect with our hair care services by deriving more customers from the growth of hair transplant services. In particular, we started to focus on *Svenson*-related brand awareness, reflecting (i) an increased number of patients purchased medical hair care services, from 18,067 patients for the six months ended June 30, 2020 to 52,633 patients for the six months ended June 30, 2021 and (ii) an increased average spending per medical hair care patient from RMB1,698 for the six months ended June 30, 2020 to RMB4,829 for the six months ended June 30, 2021. Such significant increase in average spending per medical hair care patient was primarily due to our expanded service offerings, improved hair care formula, and improved service quality. In particular, our medical hair care services were relatively at their initial stage of businesses in the first half of 2020 as compared with that of 2021. Therefore, the significant increase in average spending per medical hair care patient was also in line with our business growth.

*Revenue from Other Services*

Our revenue from other services increased from RMB3.7 million for the six months ended June 30, 2020 to RMB9.7 million for the six months ended June 30, 2021, primarily due to the organic growth of our *Svenson Hair Care Centers* as we continued to enhance our *Svenson*'s image and brand recognition. Alongside the rapid growth of hair transplant services, it creates a synergistic effect with our hair care services by deriving more customers from the growth of hair transplant services. Furthermore, such increase in revenue was also due to the recovery from adverse impact of COVID-19 pandemic. In the first half of 2020, our *Svenson Hair Care Centers* experienced more COVID-19 related restrictions on business due to their locations in shopping malls and office buildings.

***Cost of Sales and Services***

Our cost of sales and services increased from RMB166.0 million for the six months ended June 30, 2020 to RMB278.0 million for the six months ended June 30, 2021 due to (i) an increase in staff costs as a result of salary increases and an increase in our employee headcount to support our business operation; (ii) an increase in cost of inventories and consumables due to the organic growth in all three business lines; and (iii) an increase in amortization and depreciation charges due to our clinic network expansion.

***Gross Profit and Gross Profit Margin***

Our gross profit increased from RMB435.6 million for the six months ended June 30, 2020 to RMB775.4 million for the six months ended June 30, 2021; our gross profit margin increased from 72.4% for the six months ended June 30, 2020 to 73.6% for the six months ended June 30, 2021.

*Hair Transplant Services*

Our gross profit from hair transplant services increased from RMB417.5 million for the six months ended June 30, 2020 to RMB572.3 million for the six months ended June 30, 2021, primarily due to the continued business growth of our hair transplant services. In particular, as the number of patients continue to grow, we efficiently manage our costs and expenses, and the economies of large-scale effect gradually appears. Our gross profit margin remained relatively stable at 73.6% and 72.5% for the six months ended June 30, 2020 and 2021, respectively.

*Medical Hair Care Services*

Our gross profit from medical hair care services increased from RMB17.8 million for the six months ended June 30, 2020 to RMB197.8 million for the six months ended June 30, 2021, respectively. In addition, our gross profit margin increased from 57.9% and 77.8% for the same periods. As the number of total repurchase amounts continue to grow, the organic growth in medical hair care services was attributable to the realization of large-scale effects reflecting the efficiencies and economies in fixed costs, such as staff costs and amortization and depreciation charges.

*Other Services*

Our gross profit from other services increased from RMB0.3 million for the six months ended June 30, 2020 to RMB5.3 million for the six months ended June 30, 2021; our gross profit margin increased from 6.9% for the six months ended June 30, 2020 to 54.6% for the six months ended June 30, 2021. Such increases were primarily attributable to (i) the organic growth of our Svenson Hair Center as we continued to enhance our *Svenson*'s image and brand recognition and (ii) recovery from adverse impact of COVID-19 pandemic as our *Svenson Hair Care Centers* experienced more COVID-19 related restrictions on business due to their locations in shopping malls and office buildings.

***Selling and Marketing Expenses***

Our selling and marketing expenses increased from RMB246.6 million for the six months ended June 30, 2020 to RMB577.9 million for the six months ended June 30, 2021, primarily due to the differences in timing of our brand advertising placement. In 2021, in line with our marketing strategies, we strategically focused on brand advertisements during NBA season in the first half of 2021, and targeted NBA audience, which consists of a large percentage of male audience, as our potential customers. In addition, in the first half of 2021, with the development of our medical hair care and other services, we continued to promote *Svenson*-related brand awareness and had more promotional activities in this regard. However, in 2020, we focused on brand advertising in the second half of 2020. For example, our brand advertising on subways, elevators and buses was substantially increased during this period. Therefore, our selling and marketing increased from six months ended June 30, 2020 to six months ended June 30, 2021.

***General and Administrative Expenses***

Our general and administrative expenses increased from RMB69.4 million for the six months ended June 30, 2020 to RMB91.1 million for the six months ended June 30, 2021, primarily due to (i) the [**REDACTED**] expenses in relation to the [**REDACTED**]; (ii) an increase in staff costs due to the salary increases and the increase in our employee headcount for administration in line with our clinic network expansion; and (iii) an increase in operation related expenses due to the recovery of COVID-19.

***Research and Development Expenses***

Our research and development expenses increased from RMB5.5 million for the six months ended June 30, 2020 to RMB6.2 million for the six months ended June 30, 2021, primarily due to an increase in professional service fees, which was in line with the increase in our research and development activities. For example, we developed certain projects to enhance the success rate of our hair transplant services during this period.

***Net Impairment Losses on Financial Assets***

Our net impairment losses on financial assets increased from RMB0.3 million for the six months ended June 30, 2020 to RMB0.4 million for the six months ended June 30, 2021.

***Other Income***

Our other income increased from RMB1.4 million for the six months ended June 30, 2020 to RMB2.1 million for the six months ended June 30, 2021, primarily due to an increase in VAT additional deductions in connection with our increased procurement.

***Other Gains and Losses – Net***

For the six months ended June 30, 2020, we recorded RMB5.8 million other expenses and losses primarily due to (i) RMB3.6 million in losses on disposal of property, plant and equipment due to the depreciation; and (ii) RMB1.0 million in donation. For the six months ended June 30, 2021, we recorded RMB7.2 million in other gains, primarily due to (i) the compensation from early-termination of a property lease and (ii) other gains in relation to the differences between the carrying amounts of the right-of-use asset and the lease liability.

***Finance Costs – Net***

Our net finance costs increased from RMB15.8 million for the six months ended June 30, 2020 to RMB20.3 million for the six months ended June 30, 2021, primarily due to an increase in interest expenses for lease liabilities. Such increase in finance costs was partially offset by an increase in interest income on bank deposits.

***Income Tax Expense***

Our income tax expense increased from RMB28.1 million for the six months ended June 30, 2020 to RMB48.4 million for the six months ended June 30, 2021, primarily due to (i) an increase in tax expenses due to the payment of shares transfer of Beijing Haiyouyou during our Reorganization and (ii)

a decreased pre-tax deduction for advertising expenses since the advertising expenses for the relevant period were above 15% of the revenue.

***Profit for the Period***

As a result of the above, our net profit decreased from RMB65.5 million for the six months ended June 30, 2020 to RMB40.4 million for the six months ended June 30, 2021.

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

***Revenue***

Our revenue increased from RMB1,224.5 million in 2019 to RMB1,638.3 million in 2020.

*Revenue from Hair Transplant Services*

Our revenue from hair transplant services increased from RMB1,197.8 million in 2019 to RMB1,412.7 million in 2020, primarily due to an increase in the number of hair transplant patients. The number of hair transplant patients increased by 17.7% from 43,087 in 2019 to 50,694 in 2020, which was in line with our business growth and clinic network expansion and upgrade.

*Revenue from Medical Hair Care Services*

Our revenue from medical hair care services increased significantly from RMB15.1 million in 2019 to RMB213.2 million in 2020. Such increase was mainly because we started to ramp up medical hair care services since the end of 2019 and offered more hair care related products and services. We opened a *Svenson Medical Hair Care Center* in each of our hair transplant clinics under a "shop-in-shop" model to provide hair transplant patients with preoperative and postoperative medical services. Furthermore, unlike the hair transplant market, the medical hair care service market is characterized primarily by repeat sales to the same patients, which indicates tremendous future growth potentials.

*Revenue from Other Services*

Our revenue from other services remained relatively stable from RMB11.6 million in 2019 to RMB12.3 million in 2020.

***Cost of Sales and Services***

Our cost of sales and services increased from RMB335.4 million in 2019 to RMB416.7 million in 2020, primarily due to (i) an increase in amortization and depreciation charges due the increases in amortization of property, plant and equipment and depreciation of right-of-use assets, both of which were in line with our clinic network expansion as we established new clinics and upgraded our existing clinics; (ii) an increase in staff costs as a result of salary increases and an increase in our employee headcount to support our business operation and medical hair care service expansion; and (iii) an increase in cost of inventories and consumables which was in line with our business growth.

***Gross Profit and Gross Profit Margin***

Our gross profit increased from RMB889.1 million in 2019 to RMB1,221.6 million in 2020; our gross profit margin increased from 72.6% in 2019 to 74.6% in 2020.

*Hair Transplant Services*

Our gross profit from hair transplant services increased from RMB886.7 million in 2019 to RMB1,061.1 million in 2020, primarily due to the business growth of our hair transplant services. In particular, the number of hair transplant patients increased by 17.7% from 43,087 in 2019 to 50,694 in 2020. Our gross profit margin remained relatively stable from 74.0% to 75.1% in 2019 and 2020, respectively.

*Medical Hair Care Services*

Our gross profit from medical hair care services increased significantly from RMB4.8 million in 2019 to RMB157.3 million in 2020; and our gross profit margin increased from 32.0% in 2019 to 73.8% in 2020. Such increases in gross profit and gross profit margin from 2019 to 2020 were mainly related to our medical hair care business integration. In 2019, our business of the medical hair care services was in its initial operation stage, and therefore, we recorded relatively lower gross profit and gross profit margin. Since the late 2019, we started to ramp up our business in medical hair care sector and formed a scale effect corresponding with the growth of our hair transplant services.

*Other Services*

We recorded gross loss of RMB2.4 million and gross loss margin of 20.8% in 2019. Due to our continuous development of other services, we recorded gross profit of RMB3.2 million and gross profit margin of 25.8% in 2020.

***Selling and Marketing Expenses***

Our selling and marketing expenses increased from RMB650.3 million in 2019 to RMB779.6 million in 2020, primarily due to an increase in marketing and promotion expenses, which was in line with our business expansion. In particular, we continue to focus on brand marketing and advertising to enhance our brand recognition. In addition, the increase in selling and marketing expenses was also attributable to the increase in staff costs due to the increase in our sales and marketing employee headcount primarily for medical hair care services. The selling and marketing expenses as percentage of our revenue was decreased from 53.1% in 2019 to 47.6% in 2020, primarily because we optimized our advertising distribution channels in 2020 to improve the efficiency of selling and marketing activities.

***General and Administrative Expenses***

Our general and administrative expenses increased from RMB130.0 million in 2019 to RMB162.0 million in 2020, primarily due to (i) an increase in staff costs as a result of the salary increases and the increase in our employee headcount for administration. In particular, we have established customer service department to improve our customer satisfaction; (ii) an increase in professional service fees due to the increase in rental consulting services (representing the services fees paid to third-parties for clinic site selection and lease recommendations), audit services and technical fees; (iii) an increase in other

expenses mainly due to the increase in taxes and surcharges and bank transaction fees in line with our business growth. In addition, we recorded RMB5.0 million in relation to [**REDACTED**] expenses in 2020.

***Research and Development Expenses***

Our research and development expenses increased from RMB8.9 million in 2019 to RMB11.8 million in 2020, primarily due to an increase in staff costs due to the salary increases and the increase in our employee headcount for research and development. In addition, such increase was also due to the increases in other expenses and professional service fees, both of which were related to the increase in our research and development activities. For example, in 2020, we have developed and launched a set of intelligent consultation service. For details, see "Business — Our Competitive Strengths — Industry-Leading Technology."

***Net Impairment Losses on Financial Assets***

Our net impairment losses on financial assets increased from RMB34,000 in 2019 to RMB0.5 million in 2020 based on our assessment of the recoverability of certain trade and other receivables.

***Other Income***

Our other income increased from RMB1.4 million in 2019 to RMB6.3 million in 2020, primarily due to the government grants received in 2020. These government grants were primarily comprised of hiring subsidies and economic subsidies.

***Other Gains and Losses – Net***

Our net other expenses and losses increased from RMB3.4 million in 2019 to RMB7.7 million in 2020, primarily due to losses on disposal of property, plant and equipment and donation to Wuhan during the COVID-19 epidemic.

***Finance Costs – Net***

Our net finance costs increased from RMB26.5 million in 2019 to RMB35.3 million in 2020, primarily due to an increase in interest expenses for lease liabilities, and was partially offset by an increase in interest income on bank deposit.

***Income Tax Expense***

Our income tax expenses increased from RMB35.9 million in 2019 to RMB67.6 million in 2020, primarily due to an increase in our profit before income tax.

***Profit for the Year***

As a result of the above, our net profit increased significantly from RMB35.6 million in 2019 to RMB163.3 million in 2020.

**Year Ended December 31, 2019 Compared with Year Ended December 31, 2018**

***Revenue***

Our revenue increased from RMB934.3 million in 2018 to RMB1,224.5 million in 2019.

*Revenue from Hair Transplant Services*

Our revenue from hair transplant services increased from RMB918.0 million in 2018 to RMB1,197.8 million in 2019. Such growth was supported by the increase in the number of hair transplant patients. The number of hair transplant patients increased from 35,177 in 2018 to 43,087 in 2019, representing significant growth of approximately 22.5%.

*Revenue from Medical Hair Care Services*

We started to develop our medical hair care services in 2019 and recorded revenue of RMB15.1 million in the same year. We plan to quickly penetrate into the medical hair care market by offering full-cycle medical hair care services. In particular, we started to offer service packages in our clinics to meet the hair-related demands from different customers.

*Revenue from Other Services*

Our revenue from other services decreased from RMB16.3 million in 2018 to RMB11.6 million in 2019. Such decrease was primarily due to the store integration, as we closed three *Svenson* stores in 2019 and started to establish "*Svenson Medical Hair Care Centers* (史雲遜健髮中心)" in our hair transplant clinics.

***Cost of Sales and Services***

Our cost of sales and services increased from RMB232.2 million in 2018 to RMB335.4 million in 2019, primarily due to (i) an increase in staff costs as a result of salary increases and an increase in our employee headcount to support our business operation; (ii) an increase in amortization and depreciation charges due to the increase in amortization of property, plant and equipment and depreciation of right-of-use assets both of which were related to our clinic network expansion; and (iii) an increase in cost of inventories and consumables.

***Gross Profit and Gross Profit Margin***

Our gross profit increased from RMB702.1 million in 2018 to RMB889.1 million in 2019; our gross profit margin decreased from 75.2% in 2018 to 72.6% in 2019. The decrease in gross profit margin was primarily due to the increased amortization and depreciation charges as a result of our clinic network expansion.

*Hair Transplant Services*

Our gross profit from hair transplant services increased from RMB703.8 million in 2018 to RMB886.7 million in 2019, primarily due to the continued business growth of our hair transplant services. The number of hair transplant patients increased from 35,177 in 2018 to 43,087 in 2019,

representing significant growth of approximately 22.5%. Our gross profit margin decreased from 76.7% in 2018 to 74.0% in 2019 primarily due to our rapid clinic expansion and upgrade in 2019 as we recorded significant amount of amortization and depreciation charges at their initial stage of operations.

*Medical Hair Care Services*

We started to generate revenue in medical hair care services under *Svenson Medical Hair Care Centers* and recorded gross profit of RMB4.8 million and gross profit margin of 32.0%.

*Other Services*

Our gross loss from other services increased from RMB1.6 million to RMB2.4 million, corresponding with the increase of gross loss margin from 10.1% to 20.8% in 2018 and 2019, respectively. The increases in gross loss and gross loss margin were primarily due to our business integration where we closed several *Svenson* stores and began to establish shop-in-shop model.

***Selling and Marketing Expenses***

Our selling and marketing expenses increased from RMB463.7 million in 2018 to RMB650.3 million in 2019, primarily due to (i) an increase in staff costs due to the increase in our sales and marketing employee headcount in line with our regional marketing strategies to expand our operations to other cities; (ii) an increase in marketing and promotion expenses as we further diversified our advertising channels; and (iii) an increase in operation related expenses, as we expand our sales and marketing team to other cities in China. In particular, besides performance-based advertisements, we started increasing the usage of brand advertising in 2019 to enhance our brand recognition.

***General and Administrative Expenses***

Our general and administrative expenses increased from RMB94.0 million in 2018 to RMB130.0 million in 2019, primarily due to (i) an increase in staff costs due to the salary increases and the increase in our employee headcount for administration in line with our clinic network expansion and (ii) an increase in other expenses due to the increase in bank transaction fees in line with our business growth.

***Research and Development Expenses***

Our research and development expenses increased from RMB7.8 million in 2018 to RMB8.9 million in 2019, primarily due to an increase in staff costs as a result of salary increases and the increase in our employee headcount for research and development.

***Net Impairment Losses on Financial Assets***

Our net impairment losses on financial assets decreased from RMB1.6 million in 2018 to RMB34,000 in 2019, based on our assessment of the recoverability of certain trade and other receivables. We recorded relatively higher net impairment losses on financial assets in 2018 mainly due to the movement in loss allowance of certain deposits and other receivables.

***Other Income***

Our other income increased from RMB0.9 million in 2018 to RMB1.4 million in 2019, primarily due to the VAT additional deduction.

***Other Gains and Losses – Net***

Our net other expenses and losses decreased from RMB7.0 million in 2018 to RMB3.4 million in 2019, primarily because of (i) a decrease in losses on disposal of property, plant and equipment and (ii) a decrease in penalty, and certain of these losses were one-off expenses.

***Finance Costs – Net***

Our net finance costs increased from RMB17.7 million in 2018 to RMB26.5 million in 2019, primarily due to an increase in interest expenses for lease liabilities.

***Income Tax Expense***

Our income tax expense decreased from RMB57.8 million in 2018 to RMB35.9 million in 2019, due to a decrease in our profit before income tax.

***Profit for the Year***

As a result of the above, our profit for the year decreased from RMB53.5 million in 2018 to RMB35.6 million in 2019.

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

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

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 168,158 | 231,136 | 309,437 | 380,720 |
| Right-of-use assets | 398,862 | 494,985 | 810,653 | 761,324 |
| Intangible assets | 1,398 | 3,307 | 3,547 | 34,148 |
| Deferred income tax assets | 12,517 | 20,853 | 29,012 | 32,735 |
| Prepayments, deposits and other receivables | 863 | 2,499 | 4,095 | 2,216 |
| Total non-current assets | 581,798 | 752,780 | 1,156,744 | 1,211,143 |

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current assets** | | | | |
| Inventories | 14,255 | 14,486 | 26,996 | 44,496 |
| Trade receivables | 9,805 | 5,859 | 10,330 | 6,929 |
| Prepayments, deposits and other receivables | 60,111 | 68,299 | 107,430 | 131,626 |
| Restricted cash | – | – | – | 149,500 |
| Cash and cash equivalents | 68,476 | 89,789 | 292,856 | 453,100 |
| Total current assets | 152,647 | 178,433 | 437,612 | 785,651 |
| **Total assets** | 734,445 | 931,213 | 1,594,356 | 1,996,794 |
| **EQUITY** | | | | |
| **Equity attributable to owners of the Company** | | | | |
| Share capital | – | – | – | 7 |
| Other reserves | 150,365 | 150,365 | 153,971 | 241,798 |
| Retained earnings | 53,131 | 88,755 | 252,087 | 292,528 |
| **Total equity** | 203,496 | 239,120 | 406,058 | 534,333 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Lease liabilities | 324,932 | 411,172 | 682,879 | 644,381 |
| Deferred income tax liabilities | 794 | 193 | 219 | 964 |
| **Total non-current liabilities** | 325,726 | 411,365 | 683,098 | 645,345 |
| **Current liabilities** | | | | |
| Borrowings | – | 44,827 | 25,870 | 214,395 |
| Trade and other payables | 62,469 | 77,098 | 138,232 | 212,006 |
| Contract liabilities | 16,892 | 23,354 | 120,423 | 181,792 |
| Income tax liabilities | 50,481 | 38,581 | 73,624 | 50,944 |
| Lease liabilities | 75,381 | 96,868 | 147,051 | 157,979 |
| Total current liabilities | 205,223 | 280,728 | 505,200 | 817,116 |
| Total liabilities | 530,949 | 692,093 | 1,188,298 | 1,462,461 |
| **Net current liabilities** | 52,576 | 102,295 | 67,588 | 31,465 |

***Property, Plant and Equipment***

Our property, plant and equipment primarily consist of medical treatment and safety infrastructure and leasehold improvement, medical equipment, office fixtures and motor vehicles. Our property, plant and equipment increased from RMB168.2 million as of December 31, 2018 to RMB231.1 million as of December 31, 2019 to RMB309.4 million as of December 31, 2020 and further to RMB380.7 million as of June 30, 2021, primarily due to the increase in medical treatment and safety infrastructure and leasehold improvement as a result of our clinic network expansion and upgrade.

***Right-of-use Assets***

Our right-of-use assets are primarily related to our leased premises used in our operations. Our right-of-use assets increased from RMB398.9 million as of December 31, 2018 to RMB495.0 million as of December 31, 2019 and further to RMB810.7 million as of December 31, 2020, primarily because we leased more premises as hair transplant clinics and offices in 2019 and 2020. Our right-of-use assets decreased from RMB810.7 million as of December 31, 2020 to RMB761.3 million as of June 30, 2021, primarily due the certain lease expiration during this period.

***Inventories***

Our inventories primarily consist of (i) pharmaceuticals and medical consumables used in our hair transplant services; (ii) medical hair care consumables represented the consumables used in providing hair care services; and (iii) wash and hair care products that customers can purchase and use at home. We had inventories of RMB14.3 million, RMB14.5 million, RMB27.0 million, and RMB44.5 million as of December 31, 2018, 2019, 2020, and June 30, 2021, respectively. The following table sets forth our inventories as of the date indicted:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Pharmaceuticals and medical consumables | 9,618 | 7,355 | 11,305 | 13,788 |
| Medical hair care consumables | 729 | 956 | 8,621 | 14,493 |
| Wash and hair care products | 2,731 | 4,422 | 3,876 | 10,546 |
| Others[(1)] | 1,177 | 1,753 | 3,194 | 5,669 |
| *Less: allowance for impairment of inventories* | – | – | – | – |
| **Total** | 14,255 | 14,486 | 26,996 | 44,496 |

*Note:*

*(1) primarily include stationery and office supplies.*

Our inventories remained relatively stable from RMB14.3 million as of December 31, 2018 to RMB14.5 million as of December 31, 2019. In particular, our inventories of pharmaceuticals and medical consumables decreased from RMB9.6 million as of December 31, 2018 to RMB7.4 million as of December 31, 2019, primarily because we implemented a set of more stringent inventory control measures and more refined supply chain management system in 2019. Our inventories for wash and hair care products increased from RMB2.7 million as of December 31, 2018 to RMB4.4 million as of December 31, 2019, primarily due to the business development of our medical hair care services and other services. As of December 31, 2020, our inventories increased to RMB27.0 million primarily due to (i) an increase in medical hair care consumables in line with the increased procurements to support the growth of medical hair care services and (ii) an increase in pharmaceuticals and medical consumables as we strategically procured more pharmaceuticals and medical consumables in anticipation of the impact of the COVID-19 pandemic. As of June 30, 2021, our inventories increased to RMB44.5 million, primarily due to the increases in wash and hair care products and medical hair care consumables, both of which were in line with our business growth. In particular, we procedured more wash and hair care products in 2021 as we switched an existing domestic supplier to an overseas supplier for better price and product iteration. In anticipation of the transportation and custom clearance, we strategically increased our inventories.

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

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Inventory turnover days[(1)] | 15.5 | 15.6 | 18.2 | 23.1 |

*Note:*

*(1) inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year/period, divided by the cost of sales for the same year/period, and multiplied by 365 days for 2018, 2019 and 2020 and 180 days for the six months ended June 30, 2021.*

Our inventory turnover days remained stable of 15.5 days and 15.6 days as of December 31, 2018 and 2019, respectively. Our inventory turnover days increased from 15.6 days as of December 31, 2019 to 18.2 days as of December 31, 2020, which was primarily due to an increase in procurement of inventories and consumables in line with our business expansion. In addition, in anticipation of the impact of the COVID-19 pandemic, we strategically procured more pharmaceuticals and medical consumables to control the potential shortage of consumables. Our inventory turnover days further increased to 23.1 as of June 30, 2021, primarily due to the increase in procurement in line with our business growth. In particular, we procured more wash and hair products due to the switch of an supplier.

As of October 31, 2021, approximately RMB30.1 million, or 67.7%, of our inventories as of June 30, 2021 had been delivered or consumed.

***Trade Receivables***

During the Track Record Period, our trade receivables comprised the payment made by customers but not yet received from financial institution or third-party payment platforms. The following table sets forth the details of our trade receivables as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Trade receivables** | | | | |
| Trade receivables from contracts with customers | 9,871 | 5,887 | 10,409 | 6,982 |
| *Less: allowance for impairment of trade receivables* | *(66)* | *(28)* | *(79)* | *(53)* |
| **Subtotal** | 9,805 | 5,859 | 10,330 | 6,929 |

Our trade receivables fluctuated during the Track Record Period and was substantially affected by the volume of the surgeries on the last day of the year. Due to the public holiday schedule in 2018 and 2020, we had more customers on the last day of 2018 and 2020, and recorded relatively large amount of trade receivables.

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

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Trade receivables turnover days[(1)] | 3.4 | 2.3 | 1.8 | 1.5 |

*Note:*

(1) trade receivables turnover days was calculated based on the average of opening and closing balance of trade receivables less allowance for impairment for the relevant year/period, divided by the revenue for the same year/period and multiplied by 365 days for 2018, 2019 and 2020 and 180 days for the six months ended June 30, 2021.

In 2018, 2019, 2020, and the six months ended June 30, 2021, our trade receivables turnover days decreased from 3.4 days to 2.3 days and to 1.8 days and further to 1.5 days primarily due to the volume of the surgeries on the last day of the year or period. Generally, our customers are required to make payments prior to or at the time of providing services with no credit term. For third-party payment platforms, we grant credit terms on an individual basis with credit period within 15 days. We have established a credit control department to minimize our credit risk and maintain control over our outstanding receivables. Our management regularly review the settlement situations of customers with relatively long credit periods. The following table sets forth an aging analysis of our trade receivables as of the dates indicated presented based on invoice date:

| | As of December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| – Up to 3 months | 9,871 | 5,861 | 10,403 | 6,982 |
| – 3 to 6 months | – | 12 | 6 | – |
| – 6 months to 1 year | – | 14 | – | – |
| *Less: allowance for impairment of inventories* | *(66)* | *(28)* | *(79)* | *(53)* |
| **Total** | 9,805 | 5,859 | 10,330 | 6,929 |

As of October 31, 2021, approximately RMB69.1 million, or 99.8%, of our trade receivables as of June 30, 2021 had been settled.

***Prepayments, Deposits and Other Receivables***

During the Track Record Period, our prepayments, deposits, and other receivables primarily consisted of (i) prepayments for advertising and information technology service fees to third parties for marketing and promotional related activities; (ii) security deposits for rentals and advertising services; (iii) receivables in relation to rental deposits and other rental related payments yet refunded and (iv) prepaid rental and property management fees. The following table sets forth the details of our prepayments, deposits, and other receivables as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Prepayments** | | | | |
| Advertising and information technology service fees | 19,416 | 22,826 | 37,454 | 27,321 |
| Prepaid rental and property management fees | 6,602 | 2,982 | 5,342 | 13,559 |
| Professional and agency service fees | 5,654 | 1,038 | 2,315 | 5,939 |
| Capitalization of [**REDACTED**] expenses | – | – | – | 2,339 |
| Purchase of inventory | 1,179 | 2,366 | 4,441 | 13,629 |
| Others[(1)] | 1,100 | 2,087 | 2,473 | 1,620 |
| *Subtotal* | *33,951* | *31,299* | *52,025* | *64,407* |
| **Deductible input VAT** | 652 | 574 | 3,367 | 7,279 |
| **Other receivables** | | | | |
| Deposits | 22,468 | 28,828 | 43,606 | 54,954 |
| Cash advance to employees | 1,120 | 590 | 479 | 2,698 |
| Amount due from related party | 36 | 110 | 133 | – |
| Considerations of disposal subsidiaries | 1,800 | 150 | – | – |
| Others | | | | |
| – Receivables in relation to early-termination of a property lease[(2)] | – | 6,431 | 6,431 | – |
| – Social insurance plans and housing provident funds withholding[(3)] | 905 | 1,336 | 2,296 | 3,338 |
| – Petty cash in relation to customer services[(4)] | 29 | 31 | - | 557 |
| – Others[(5)] | 1,120 | 992 | 1,571 | 1,273 |
| *Less: provision for impairment of other receivables[(6)]* | *(1,970)* | *(2,042)* | *(2,478)* | *(2,880)* |
| *Subtotal* | 25,508 | 36,426 | 52,038 | 59,940 |
| **Total** | 60,111 | 68,299 | 107,430 | 131,626 |

*Notes:*

(1) primarily included prepaid utilities and energy fees.

(2) represented the receivables from a landlord due to the early termination of a property lease. Such amount was fully settled in June 2021. For details, see "Financial Information — Description of Selected Components of Consolidated Statements of Comprehensive income — Other Gains and Losses – Net."

(3) represented the advance payments we made on behalf of our employees to contribute their housing provident funds and social securities. The recognition of such receivables was due to the different timeline between certain employees' monthly payroll and monthly deadline for contributions of housing provident funds and the social securities. In general, such advances will be deducted and subsequently settled by employees' wages in the next month.

(4) represented the petty cash used for customer services such as purchasing drinking water or snacks for customers.

(5) primarily represented the incidental or one-time receivables in relation to business operation.

(6) we make periodic assessments and individual assessments on the recoverability based on the historical settlement records and past experience. The expected credit losses also incorporate forward-looking information. For details, see Note 19(c) to the Accountant's Report in Appendix I to this document.

Our prepayments, deposits, and other receivables increased from RMB60.1 million as of December 31, 2018 to RMB68.3 million as of December 31, 2019 primarily due to (i) an increase in deposits as a result of our clinic network expansion; (ii) an increase in receivables in relation to rental deposits and other rental related payments yet refunded. Such receivables were fully settled in June 2021; and (iii) an increase in advertising and information technology services fees due to our increased demands for advertising and information related services. Such increase was partially offset by decreases in professional and agency service fees and repaid rental and property management fees for the same period.

Our prepayments, deposits, and other receivables further increased from RMB68.3 million as of December 31, 2019 to RMB107.4 million as of December 31, 2020, primarily due to (i) an increase in advertising and information technology services fees as a result of our increased demands for advertising and information related services and (ii) an increase in deposits as a result of our clinic network expansion and deposits for certain sales and marketing services.

Our prepayments, deposits, and other receivables further increased from RMB107.4 million as of December 31, 2020 to RMB131.6 million as of June 30, 2021, primarily due to (i) an increase in purchase of inventory due to the increased procurement for wash and hair products from an oversea supplier and the growth of our wig business; (ii) an increase in deposits as a result of deposits for sales and marketing activities and deposits for lease in relation to business growth and clinic expansion.

***Restricted Cash***

During the Track Record Period, we had restricted cash of RMB149.5 million as of June 30, 2021, consisted of restricted deposits held at the relevant lenders as security corresponding to certain of our bank borrowings that were repayable within one year. Such restricted cash were pledged as collateral for our foreign currency borrowings of the USD equivalent of RMB120.2 million. Such foreign currency borrowings were used to pay the consideration for the shares transfer of Beijing Haiyouyou during our Reorganization. For details, see details, see Note 24(b) to the Accountant's Report in Appendix I to this document.

***Cash and Cash Equivalents***

Our cash and cash equivalents primarily consisted of bank deposits and cash on hand. The following table sets forth a breakdown of our cash and cash equivalents as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank deposits | 68,260 | 89,705 | 292,763 | 452,898 |
| Cash on hand | 216 | 84 | 93 | 202 |
| **Total** | 68,476 | 89,789 | 292,856 | 453,100 |

Our cash and cash equivalents increased from RMB68.5 million as of December 31, 2018 to RMB89.8 million as of December 31, 2019, which was primarily attributable to the increase in net cash generated from operating activities. Our cash and cash equivalents further increased significantly from RMB89.8 million as of December 31, 2019 to RMB292.9 million as of December 31, 2020. Such increase was primarily attributable to a combination of the increase in business expansion and the advance payments made by customers in relation to hair care services. Our cash and cash equivalents increased from RMB292.9 million as of December 31, 2020 to RMB453.1 million as of June 30, 2021, which was primarily attributable to (i) an increase in net cash generated from operating activities; (ii) an increase in capital; and (iii) an increase in bank borrowings.

***Trade and Other Payables***

Our trade payables primarily consist of payments we owed to third parties in relation to renovation of our offices and hair transplant clinics, rental expenses and promotion expenses payable to third-party marketing service providers. Our other payables primarily consisted of (i) accrued employee benefits representing salaries and bonuses to be paid to our employees; (ii) refund liabilities for sales returns and quality assurance; (iii) accrued expenses in relation to daily operation; and (iv) tax payables. The following table sets forth the details of our trade and other payables as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payable | 16,574 | 22,545 | 44,676 | 66,645 |
| Accrued employee benefits | 26,856 | 32,226 | 71,077 | 74,962 |
| Refund liabilities | 3,935 | 5,024 | 7,581 | 11,253 |
| Accrued expenses | 4,738 | 2,283 | 4,219 | 6,074 |
| Tax payable | 4,039 | 5,928 | 3,555 | 19,809 |
| Security deposit | 3,079 | 3,178 | 3,135 | 4,467 |
| Amount due to related party | 785 | 749 | 30 | 25,886 |
| Others[(1)] | 2,463 | 5,165 | 3,959 | 2,910 |
| **Total** | 62,469 | 77,098 | 138,232 | 212,006 |

*Note: represented tax transaction payables and security insurance withholding payables*

Our trade and other payables increased from RMB62.5 million as of December 31, 2018 to RMB77.1 million as of December 31, 2019, which was primarily attributable to (i) an increase in trade payable in relation to renovation of our offices and (ii) an increase in accrued employee benefits due to an increase in the number of our employees. Our trade and other payables further increased to RMB138.2 million as of December 31, 2020, which was primarily attributable to (i) an increase in trade payable in relation to renovation of our offices and promotion expenses payable to third-party marketing service providers and (ii) an increase in accrued employee benefits due to an increase in the number of our employees, partially offset by a decrease in tax payable. Our trade and other payables further increased to RMB212.0 million as of June 30, 2021, which was primarily attributable to (i) an increase in amount due to related parties in relation to the acquisition of Nu/Hart Hair; (ii) an increase in tax payables as certain of our medical hair care services were eligible for preferential tax treatments in 2020 due to the COVID-19, but such tax treatments were ceased in 2021 and (iii) an increase in trade payable as a result of the increased purchase of marketing services in line with our business growth and better payment terms granted by certain of our suppliers.

The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Up to 3 months | 14,649 | 16,579 | 37,948 | 57,512 |
| – 3 to 6 months | 1,322 | 4,796 | 3,851 | 3,654 |
| – 6 months to 1 year | 400 | 845 | 2,344 | 4,307 |
| – 1 to 2 years | 138 | 260 | 408 | 1,172 |
| – Over 2 years | 65 | 65 | 125 | – |
| **Total** | 16,574 | 22,545 | 44,676 | 66,645 |

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

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Trade payables turnover days[(1)] | 26.7 | 21.3 | 29.4 | 36.0 |

*Note:*

*(1) trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant year/period, divided by the cost of sales for the same year/period, and multiplied by 365 days for 2018, 2019 and 2020 and 180 days for the six months ended June 30, 2021.*

Our trade payables turnover days were 26.7 days, 21.3 days, 29.4 days, and 36.0 days in 2018, 2019, 2020, and the six months ended June 30, 2021, respectively. Our trade payables turnover days decreased from 26.7 days in 2018 to 21.3 days in 2019, primarily due to the settlement of trade payables with certain suppliers. Our trade payables turnover days increased from 21.3 days in 2019 to 29.4 days in 2020. Such increase was primarily due to the increased bargaining power as we negotiated relatively longer credit periods with our suppliers during this period. Our trade payables turnover days increased from 29.4 days in 2020 to 36.0 days for the six months ended June 30, 2021 as a result of the increased purchase of marketing services and better payment terms granted by certain of our suppliers.

As of October 31, 2021, approximately RMB51.5 million, or 77.3%, of our trade payables as of June 30, 2021 had been settled.

***Contract Liabilities***

Our contract liabilities primarily represent advanced payments received from customers for services or products that had not yet been provided to the customers. Our contract liabilities increased from RMB16.9 million as of December 31, 2018 to RMB23.4 million as of December 31, 2019, which was generally in line with our business growth. In particular, our contract liabilities increased significantly to RMB120.4 million as of December 31, 2020, which was primarily in relation to the medical hair care services we rendered, where we offered hair care services in service components. The following table sets forth a breakdown of our contract liabilities as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Contract liabilities | | | | |
| – Hair transplant services | 6,223 | 8,375 | 11,196 | 11,850 |
| – Medical hair care services | – | 4,054 | 97,706 | 159,749 |
| – Other | 10,669 | 10,925 | 11,521 | 10,193 |
| **Total** | 16,892 | 23,354 | 120,423 | 181,792 |

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

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Hair transplant services | 2,221 | 3,083 | 3,075 | 2,711 | 3,935 |
| Medical hair care services | – | – | 3,285 | 2,563 | 64,902 |
| Other | 3,976 | 4,880 | 3,179 | 1,211 | 2,434 |
| **Total** | 6,197 | 7,963 | 9,539 | 6,485 | 71,271 |

As of October 31, 2021, approximately RMB105.4 million, or 58.0%, of our contract liabilities as of June 30, 2021 had been recognized as revenue.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Our principal use of cash during the Track Record Period was for working capital purposes. Our main source of liquidity has been generated from cash flow from operation. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank facilities and net [**REDACTED**] from the [**REDACTED**]. As of June 30, 2021, we had cash and cash equivalents of RMB453.1 million. Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document. As of the Latest Practicable Date, we had unutilized banking facilities of RMB15.8 million.

## Cash Flows

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

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash generated from operations before movements in working capital | 218,011 | 228,529 | 437,159 | 191,197 | 215,732 |
| Changes in working capital | (5,181) | 10,477 | 104,144 | 22,622 | 74,918 |
| Cash generated from operations | 212,830 | 239,006 | 541,303 | 213,819 | 290,650 |
| Interests received on bank deposits | 139 | 210 | 941 | 218 | 2,408 |
| Income tax paid | (18,402) | (56,736) | (40,673) | (40,146) | (74,744) |
| Net cash flows generated from operating activities | 194,567 | 182,480 | 501,571 | 173,891 | 218,314 |
| Net cash flows used in investing activities | (102,789) | (105,352) | (142,388) | (44,802) | (97,174) |
| Net cash flows (used in)/from financing activities | (69,689) | (55,815) | (156,116) | (83,877) | 38,341 |
| Net increase in cash and cash equivalents | 22,089 | 21,313 | 203,067 | 45,212 | 159,481 |
| Cash and cash equivalents at beginning of the year | 46,387 | 68,476 | 89,789 | 89,789 | 292,856 |
| Exchange gains on cash and cash equivalents | – | – | – | – | 763 |
| **Cash and cash equivalents at end of the year** | 68,476 | 89,789 | 292,856 | 135,001 | 453,100 |

### *Net Cash Flows Generated from Operating Activities*

For the six months ended June 30, 2021, our net cash generated from operating activities was RMB218.3 million, which was primarily attributable to our profit before income tax of RMB88.9 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included depreciation and amortization of RMB97.1 million, net finance costs of RMB20.3 million and [**REDACTED**] expenses of RMB8.6 million. The amount was then further adjusted positively by changes in working capital, primarily including an increase in contract liabilities

of RMB61.1 million and an increase in trade and other payables of RMB47.6 million, partially offset by an increase in inventories of RMB17.5 million and an increase in trade and other receivables of RMB16.4 million. The amount was then adjusted negatively by income tax paid of RMB74.7 million.

In 2020, our net cash generated from operating activities was RMB501.6 million, which was primarily attributable to our profit before income tax of RMB230.9 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included depreciation and amortization of RMB159.1 million, losses on disposal of property, plant and equipment of RMB4.0 million, and net finance costs of RMB35.3 million. The amount was then further adjusted positively by changes in working capital, primarily including an increase in contract liabilities of RMB97.1 million, and an increase in trade and other payables of RMB65.4 million, partially offset by an increase in trade and other receivables of RMB45.8 million and an increase in inventories of RMB12.5 million. The amount was then adjusted negatively by income tax paid of RMB40.7 million.

In 2019, our net cash generated from operating activities was RMB182.5 million, which was primarily attributable to our profit before income tax of RMB71.5 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included depreciation and amortization of RMB129.7 million and net finance costs of RMB26.5 million. The amount was then further adjusted positively by changes in working capital, primarily including an increase in trade and other payables of RMB11.8 million and an increase in contract liabilities of RMB6.5 million, partially offset by an increase in trade and other receivables of RMB7.6 million. The amount was then adjusted negatively by income tax paid of RMB56.7 million.

In 2018, our net cash generated from operating activities was RMB194.6 million, which was primarily attributable to our profit before income tax of RMB111.3 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily included depreciation and amortization of RMB84.4 million. The amount was then adjusted negatively by changes in working capital, primarily including an increase in inventories of RMB8.8 million and a decrease in trade and other payables of RMB5.0 million, partially offset by a decrease in trade and other receivable of RMB8.6 million. The amount was then adjusted negatively by income tax paid of RMB18.4 million.

***Net Cash Flows Used in Investing Activities***

For the six months ended June 30, 2021, our net cash used in investing activities was RMB97.2 million, primarily as a result of (i) purchases of property, plant and equipment of RMB92.5 million; (ii) payment for acquisition of subsidiary of RMB3.8 million and (iii) purchase of intangible assets of RMB1.0 million.

In 2020, our net cash used in investing activities was RMB142.4 million, primarily as a result of purchases of property, plant and equipment of RMB142.2 million.

In 2019, our net cash used in investing activities was RMB105.4 million, primarily as a result of (i) purchases of property, plant and equipment of RMB105.8 million and (ii) purchase of intangible assets of RMB2.3 million, and partially offset by proceeds from disposals of subsidiaries of RMB2.8 million.

In 2018, our net cash used in investing activities was RMB102.8 million, primarily as a result of purchases of property, plant and equipment of RMB135.4 million, and purchase of intangible assets of RMB1.3 million, and partially offset by disposal of financial assets at fair value through profit or loss of RMB30.3 million, and proceeds from disposals of subsidiaries of RMB3.3 million.

***Net Cash Flows Used in Financing Activities***

For the six months ended June 30, 2021, our net cash generated from financing activities was RMB38.3 million, primarily as a result of proceeds from borrowings of RMB232.7 million and capital contribution from shareholder of RMB88.7 million, and partially offset by restricted cash of guarantee for borrowings of RMB149.5 million, payment of lease liabilities of RMB77.6 million, repayment of borrowings of RMB45.9 million and payments of [**REDACTED**] expenses of RMB9.0 million.

In 2020, our net cash used in financing activities was RMB156.1 million, primarily as a result of payment of lease liabilities of RMB132.3 million, repayment of borrowings of RMB47.8 million and interest paid of RMB1.5 million, and partially offset by proceeds from borrowings of RMB28.9 million.

In 2019, our net cash used in financing activities was RMB55.8 million, primarily as a result of payment of lease liabilities of RMB99.4 million and interest paid of RMB1.3 million, and partially offset by proceeds from borrowings of RMB44.8 million.

In 2018, our net cash used in financing activities was RMB69.7 million, primarily as a result of payment of lease liabilities of RMB69.7 million.

**Net Current Assets/Liabilities**

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) |
| **Current assets:** | | | | | |
| Inventories | 14,255 | 14,486 | 26,996 | 44,496 | [51,540] |
| Trade receivables | 9,805 | 5,859 | 10,330 | 6,929 | [26,042] |
| Prepayments, deposits and other receivables | 60,111 | 68,299 | 107,430 | 131,626 | [158,447] |
| Restricted cash | – | – | – | 149,500 | [149,500] |
| Cash and cash equivalents | 68,476 | 89,789 | 292,856 | 453,100 | [422,266] |
| Total current assets | 152,647 | 178,433 | 437,612 | 785,651 | [807,795] |
| **Total assets** | 734,445 | 931,213 | 1,594,356 | 1,996,794 | [2,149,010] |
| **Current liabilities:** | | | | | |
| Borrowings | – | 44,827 | 25,870 | 214,395 | [193,104] |
| Trade and other payables | 62,469 | 77,098 | 138,232 | 212,006 | [218,739] |
| Contract liabilities | 16,892 | 23,354 | 120,423 | 181,792 | [181,454] |
| Income tax liabilities | 50,481 | 38,581 | 73,624 | 50,944 | [70,170] |
| Lease liabilities | 75,381 | 96,868 | 147,051 | 157,979 | [177,930] |
| Total current liabilities | 205,223 | 280,728 | 505,200 | 817,116 | [841,397] |
| Total liabilities | 530,949 | 692,093 | 1,188,298 | 1,462,461 | [1,562,446] |
| **Net current liabilities** | 52,576 | 102,295 | 67,588 | 31,465 | [33,602] |

**INDEBTEDNESS**

Our indebtedness mainly included bank borrowings, amount due to related parties and lease liabilities during the Track Record Period. Except as disclosed in the table below, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of October 31, 2021. After due and careful consideration, our Directors confirm that there had been no material adverse change in our indebtedness since October 31, 2021 and up to the Latest Practicable Date.

The following table sets forth a breakdown of our indebtedness as of the dates indicated:

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) |
| **Current** | | | | | |
| Bank borrowings: unsecured | – | 44,827 | 25,870 | 94,173 | [74,173] |
| Bank borrowings: secured | – | – | – | 120,222 | [118,931] |
| Amount due to related parties (non-trade) | 785 | 749 | 30 | 25,886 | [25,863] |
| Lease liabilities | 75,381 | 96,868 | 147,051 | 157,979 | [177,930] |
| **Non-current** | | | | | |
| Lease liabilities | 324,932 | 411,172 | 682,879 | 644,381 | [720,123] |
| **Total** | 401,098 | 553,616 | 855,830 | 1,042,641 | [1,117,020] |

**Borrowings**

Our bank loans and other borrowings during the Track Record Period were primarily used to supplement our working capital. During the Track Record Period, our bank loans bore interest at a rate equivalent to 1.79% to 6.5% per year. Certain of our bank loans were secured by related parties and the guarantee from the related parties had been released in June 2021. For further details of these pledges, please see Note 24 to the Accountant's Report in Appendix I to this document.

Our Directors confirm that we have not defaulted in the repayment of the bank loans and other borrowings during the Track Record Period. Our Directors have confirmed that, as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up the Latest Practicable Date, to the best knowledge of our Directors, we did not experience any difficulty in obtaining bank loans. As at the date of this Document, we did not have any plan for material external debt financing. Given our credit history and our current credit status, we believe that we will not encounter any major difficulties in obtaining additional bank borrowings in the future.

**Amount due to Related Parties**

As of December 31, 2018, 2019, 2020, June 30, 2021 and October 31, 2021, we had amount due to related parties (non-trade) of RMB0.8 million, RMB0.7 million, RMB30,000, RMB25.9 million and RMB[25.9] million, respectively. Save for the outstanding balance with Xinsiyu in relation to the acquisition of Nu/Hart Hair, we plan to settle the outstanding balances with other related parties, which

were non-trade in nature, before [**REDACTED**]. The outstanding balance with Xinsiyu is expected to be settled upon [**REDACTED**] using [**REDACTED**] from the [**REDACTED**]. See "Future Plans and Use of [**REDACTED**]" for further details.

**Lease Liabilities**

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

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) |
| **Current** | 75,381 | 96,868 | 147,051 | 157,979 | [177,930] |
| **Non-current** | 324,932 | 411,172 | 682,879 | 644,381 | [720,123] |
| **Total** | 400,313 | 508,040 | 829,930 | 802,360 | [898,053] |

Our lease liabilities amounted to RMB400.3 million, RMB508.0 million, RMB829.9 million, RMB802.4 million, and RMB[898.1] million as of December 31, 2018, 2019, 2020, June 30, 2021 and October 31, 2021, respectively, which were primarily in relation to the properties we leased for our office premises and hair transplant medical clinics. We recognize a lease liability with respect to all leases, except for short-term leases and leases of low value assets.

**CAPITAL EXPENDITURES**

We regularly incur capital expenditures to expand our operations, upgrade our facilities and increase our operating efficiency. Our capital expenditures represented payment for purchases of property, plant and equipment and payments for intangible assets during the Track Record Period. The following table sets forth our capital expenditures for the periods indicated:

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Payments for property, plant and equipment | 135,424 | 105,808 | 142,204 | 92,462 |
| Payments for intangible assets | 1,270 | 2,300 | 643 | 992 |
| **Total** | 136,694 | 108,108 | 142,847 | 93,454 |

For the years ending December 31, 2021 and 2022, our planned capital expenditure is expected to be RMB335 million and RMB188 million, respectively, primarily relating to the purchase of equipment and payment of intangible assets. We plan to finance our future capital expenditures through cash generated from our operations, bank borrowings and [**REDACTED**] from the [**REDACTED**]. Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial and market condition.

## CONTRACTUAL OBLIGATIONS

### Capital Commitments

As of December 31, 2018, 2019, 2020, and June 30, 2021, we had capital commitments of RMB12.1 million, RMB13.3 million, RMB73.5 million, and RMB26.0 million, respectively, primarily in connection with our medical treatment and safety infrastructure and leasehold improvement. In particular, due our clinic expansions, we recorded an increased amount of capital commitments resulted from medical treatment and safety infrastructure and leasehold improvement. The following table sets forth our capital commitments as of the date indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Medical treatment and safety infrastructure and leasehold improvement | 11,672 | 13,099 | 72,346 | 25,863 |
| Property, plant and equipment | 2 | 151 | 1,112 | 125 |
| Intangible assets | 470 | – | – | – |
| **Total** | 12,144 | 13,250 | 73,458 | 25,988 |

### Lease Commitments

We entered into short-term leases primarily for employee dormitories. As of December 31, 2018, 2019, 2020 and June 30, 2021, the outstanding lease commitment relating to these premises was RMB8.1 million, RMB8.2 million, RMB3.8 million and RMB5.8 million, respectively.

## CONTINGENT LIABILITIES

As of December 31, 2018, 2019, 2020, and June 30, 2021, we did not have any material contingent liabilities. We confirm that as of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

## KEY FINANCIAL RATIOS

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

| | As of/For the Year Ended December 31, | | | As of/ For the Six Months Ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Return on average equity[(1)] | 30.3% | 16.1% | 50.6% | 17.2%[(7)] |
| Return on average assets[(2)] | 8.5% | 4.3% | 12.9% | 4.5%[(7)] |
| Current ratio[(3)] | 0.74 | 0.64 | 0.87 | 0.96 |
| Quick ratio[(4)] | 0.67 | 0.58 | 0.81 | 0.91 |
| Gearing ratio[(5)] | N/M[(6)] | 0.19 | 0.06 | 0.40 |

*Notes:*

(1) Equals profit for the year/period divided by average balance of total equity attributable to owners of the Company at the beginning and the end of that year/period and multiplied by 100%.

(2) Equals profit for the year/period divided by average balance of total assets at the beginning and the end of that year/period and multiplied by 100%.

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

(4) Equals current assets less inventories and divided by current liabilities as of the same date.

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

(6) As of December 31, 2018, the Group had no bank loans or other borrowings, so the gearing ratio as of that date is not meaningful.

(7) Calculated based on annualized basis.

Our return on average equity decreased from 30.3% as of December 31, 2018 to 16.1% as of December 31, 2019 primarily due to (i) a decrease in our profit from the year of 2018 to the year of 2019; and (ii) an increase in total equity resulting from the growth of retained earnings. Our return on average equity increased from 16.1% as of December 31, 2019 to 50.6% as of December 31, 2020 primarily due to an increase in our profit from the year of 2019 to the year of 2020. Our return on average equity decreased from 50.6% for 2020 to 17.2% for the six months ended June 30, 2021, primarily due to (i) a decrease in profit and (ii) an increase in total equity accumulation of profit during the relevant period.

Our return on average assets decreased from 8.5% in 2018 to 4.3% in 2019 primarily due to (i) a decrease in net profit; (ii) increases in total assets from right-of-use assets and property, plant and equipment, both of which were in line with our business expansion. Our return on average assets increased from 4.3% in 2019 to 12.9% in 2020, primarily due to the increase in our profit for the year of 2019 to the year of 2020. Our return on average assets decreased from 12.9% in 2020 to 4.5% for the six months ended June 30, 2021, primarily due to (i) an increase in total assets as a result of the increases in cash and cash equivalents and restricted cash and (ii) a decrease in profit for the period due to the increase in selling and marketing expenses.

Our current ratio decreased from 0.74 as of December 31, 2018 to 0.64 as of December 31, 2019, mainly attributable to the increase in our total current liabilities primarily due to new bank borrowings and an increase in lease liabilities, while our current assets increased at a relatively slower rate. Our current ratio increased from 0.64 as of December 31, 2019 to 0.87 as of December 31, 2020, mainly attributable to the increase in our total current assets primarily due to a significant increase in cash and cash equivalents and trade and other receivables. Our current ratio increased from 0.87 as of December 31, 2020 to 0.96 as of June 30, 2021, primarily due to an increase in current assets which was primarily attributable to the increases cash and cash equivalents, restricted cash and inventories, and our current liabilities increased at a relatively slower rate.

Our quick ratio decreased from 0.67 as of December 31, 2018 to 0.58 as of December 31, 2019, mainly attributable to the increase in our total current liabilities primarily due to new bank borrowings and an increase in lease liabilities, while our current assets increased at a relatively slower rate. Our quick ratio increased from 0.58 as of December 31, 2019 to 0.81 as of December 31, 2020, mainly attributable to the increase in our total current assets primarily due to a significant increase in cash and cash equivalents and trade and other receivables, and was partially offset by the increase in inventories for the same year. Our quick ratio increased from 0.81 as of December 31, 2020 to 0.91 as of June 30, 2021, primarily due to an increase in quick assets which was primarily attributable to the increases cash and cash equivalents and restricted cash, and our current liabilities increased at a relatively slower rate.

Our gearing ratio as of December 31, 2018 was not meaningful as we did not have any bank loans or other borrowings. Our gearing ratio decreased from 0.19 as of December 31, 2019 to 0.06 as of December 31, 2020 primarily due to the increase in total equity as a result of the increase in cash and cash equivalents. Our gearing ratio increased from 0.06 as of December 31, 2020 to 0.40 as of June 30, 2021, primarily due to an increase in borrowings.

## RELATED PARTY TRANSACTIONS

### *Transaction with Related Parties*

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in Note 30 to the Accountant's Report in Appendix I to this document. Our related party transactions mainly represent bank borrowings guarantees provided by a related party.The table below sets forth significant transactions between us and our related parties during the Track Record Period.

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Acquisition of a subsidiary | – | – | – | 30,000 |
| Services purchasing | 133 | – | – | – |

***Outstanding Balances with Related Parties***

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

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Amount due from related parties (non-trade) | 36 | 110 | 133 | – |
| Amount due to related parties (non-trade) | 785 | 749 | 30 | 25,886 |

Our Directors confirm that all material related party transactions during the Track Record Period were conducted on an arm's length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance. Save for the outstanding balance with Xinsiyu in relation to the acquisition of Nu/Hart Hair, which was non-trade in nature, we plan to settle the outstanding balances with other related parties, which were non-trade in nature, before [**REDACTED**]. The outstanding balance with Xinsiyu is expected to be settled upon [**REDACTED**] using [**REDACTED**] from the [**REDACTED**]. See "Future Plans and Use of [**REDACTED**]" for further details.

## MARKET RISK DISCLOSURE

We are exposed to a variety of financial risks and market risk, including foreign currency risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our Group's financial performance. For more details, see Note 3.1 to the Accountant's Report in Appendix I to this document. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks.

### Foreign Currency Risk

The functional currency of the majority of our entities is Renminbi, and most of our transactions are based and settled in Renminbi. Foreign currencies are used to settle our revenue and borrowings out of mainland China. Renminbi is not freely convertible into other foreign currencies and conversion of Renminbi into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the China's government. Our management monitors foreign exchange exposure and will consider appropriate hedging measures in the future should the need arises.

### Cash Flow and Fair Value Interest Rate Risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for cash and cash equivalents, details of which have been disclosed in Note 28 to the Accountant's Report in Appendix I to this document. Our

directors do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of these assets are not expected to change significantly.

**Credit Risk**

We are exposed to credit risk primarily in relation to our cash and cash equivalents as well as trade receivables and other financial assets at amortized cost. The carrying amount of each class of the above financial assets represents our Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

We expect that there is no significant credit risk associated with cash and cash equivalents, because they are mainly placed with state-owned or reputable financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The expected loss rates are based on the historical credit losses and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We have identified economic policies, macroeconomic conditions, industry risks, probabilities of default and expected operating performance of the debtors in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

For other financial assets at amortized cost, our management makes periodic assessments as well as individual assessment on the recoverability based on historical settlement records, experience and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Directors believe that there is no material credit risk inherent in our Group's outstanding balance of other financial assets at amortized cost. For more details, see Note 3.1 to the Accountant's Report in Appendix I to this document.

**Liquidity Risk**

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, we regularly monitor our liquidity risk and maintain flexibility in funding by maintaining adequate cash and cash equivalents. For more details, see Note 3.1 to the Accountant's Report in Appendix I to this document.

**DIVIDENDS**

During the Track Record Period, our Company did not pay or declare any dividend. We paid out a cash dividend of RMB70 million, being approximately RMB0.658 per Share, utilizing our existing cash at hand at the time to our existing Shareholders on November 19, 2021. The Dividend was approved by our Board and Shareholders on November 12, 2021. We believe that the distribution of the Dividend will not have a material impact on the sufficiency of our working capital after the [**REDACTED**] and we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations. Our historical declarations of dividends may not reflect our future declarations of dividends.

Currently, we do not have a formal dividend policy or a fixed dividend payout ratio. Our Board may declare dividends in the future after taking into account our results of operations, financial condition,

cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Act. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they deem appropriate. No dividend shall be declared or payable except out of our profits, retained earnings or share premium, subject to a solvency test being satisfied.

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

## DISTRIBUTABLE RESERVES

As of June 30, 2021, we did not have any distributable reserves.

## [**REDACTED**] EXPENSES

[**REDACTED**] expenses to be borne by us are estimated to be approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) (at the [**REDACTED**] of HK$[**REDACTED**] per Share and assuming the [**REDACTED**] is not exercised) among which (i) [**REDACTED**]-related expenses, including [**REDACTED**] commission and other expenses are approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) and (ii) non-[**REDACTED**]-related expenses are approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million), comprising (a) fees and expenses of legal advisors and Reporting Accountants of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) and (b) other fees and expenses of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million). We incurred approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) of [**REDACTED**] expenses during the Track Record Period, among which approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) was recorded as expenses and approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) was recorded as prepayment.

We estimate that additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) (including [**REDACTED**] commissions of approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million), assuming the [**REDACTED**] is not exercised and based on the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**]) will be incurred by our Company, approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] million (HK$[**REDACTED**] million) of which is expected to be capitalized. Our [**REDACTED**] expenses as a percentage of gross [**REDACTED**] is [**REDACTED**]%, assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, (being the mid-point of the indicative [**REDACTED**] range stated in this document) and assuming that the [**REDACTED**] is not exercised. The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

## UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [**REDACTED**] on the consolidated net tangible assets of our Group attributable to the owners of our Company as of June 30, 2021 as if the [**REDACTED**] had taken place on June 30, 2021 assuming the [**REDACTED**] is not exercised.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the [**REDACTED**] been completed as of June 30, 2021 or as of any future dates.

| | **Unadjusted audited consolidated net tangible assets of our Group attributable to the owners of our Company as of June 30, 2021** | **Estimated net [REDACTED] from the [REDACTED]** | **Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as of June 30, 2021** | **Unaudited pro forma adjusted consolidated net tangible assets per Share as of June 30, 2021** | |
|---|---|---|---|---|---|
| | *RMB'000 (Note 1)* | *RMB'000 (Note 2)* | *RMB'000* | *RMB (Note 3)* | *HK$ (Note 4)* |
| Based on an [**REDACTED**] of HK$[**REDACTED**] per Share | 500,185 | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |
| Based on an [**REDACTED**] of HK$[**REDACTED**] per Share | 500,185 | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |

*Notes:*

(1) The unadjusted audited consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2021 is extracted from the Accountant's Report as set out in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as of June 30, 2021 of RMB534,333,000 with an adjustment for the intangible assets attributable to owners of our Company as of June 30, 2021 of RMB34,148,000.

(2) The estimated net [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] Shares at the indicative [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**] per Share, respectively, after deduction of the estimated [**REDACTED**] fees and other related expenses payable by our Company and takes no account of any shares which may be issued upon the exercise of the [**REDACTED**].

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] Shares were in issue immediately upon completion of the Share Split and the [**REDACTED**], which is assumed to be on June 30, 2021 for the purpose of the pro forma financial information, and takes no account of any Shares which may be issued upon exercise of the [**REDACTED**].

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.8210. No representation is made that Renminbi has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to June 30, 2021.

(5) The unaudited pro forma adjusted consolidated net tangible assets of the Group have not taken into account the cash dividend of RMB70,000,000 approved by the Board and Shareholders on November 12, 2021. The unaudited pro forma adjusted consolidated net tangible assets per Share would have been HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) and HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) per Share based on the indicative [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**], being the low-end and high-end, respectively, after taking into account the declaration and payment of the cash dividend.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this document, other than as disclosed under the "Recent Developments and No Material Adverse Change" in the "Summary" section in this document, there had been no material adverse change in our financial, operational or prospects since June 30, 2021, being the latest balance sheet date of our consolidated financial statements as set out in the Accountant's Report in Appendix I to this document.

## DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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

## BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

### PRC Laws and Regulations Relating to Foreign Ownership Restriction

The Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020) (外商投資准入特別管理措施(負面清單)(2020年版)) (the "**Negative List**") promulgated jointly by the MOFCOM and the NDRC, the Negative List stipulates industries in which foreign investments is restricted and prohibited. According to the Negative List, foreign investment is restricted in operating of medical institutions, and therefore may not be held 100% by foreign investors. Our Group engages in providing hair transplant services and medical hair care services (the "**Relevant Businesses**"), which involve the operating of medical institutions, and therefore falls into the scope of the "restricted" category of the Negative List. As such, we do not own 100% equity interest in the VIE Entities.

According to the Provisional Measures for the Administration on Sino-Foreign Equity and Cooperative Medical Institutions (中外合資合作醫療機構管理暫行辦法), operation of "medical institutions" falls within the "restricted category" and foreign investors are not allowed to hold more than 70% equity interest in a "medical institution". 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. Further, according to the Administrative Measures on Sino-Foreign Equity and Cooperative Medical Institutions in the Sichuan Province (《四川省中外合資、合作醫療機構管理辦法》), the equity ratio or interests attributable to joint venture of foreign investor in the Sino-foreign cooperative medical institutes shall not be more than 90%.

With respect to the foreign investment restriction on medical services and medical institutions, the respective PRC legal advisers of our Company and of the Joint Sponsors conducted verbal consultations with officers of the National Health Commission of the PRC ("**NHC**") and the Beijing MOFCOM. The officers of NHC and Beijing MOFCOM confirmed that (i) generally foreign investors are not allowed to hold, either directly or indirectly, more than 70% equity interest in a medical institution, other than in Sichuan Province the local policy is that foreign investors are not allowed to hold more than 90% equity interest in a medical institution. Our PRC legal adviser are of the view that the NHC and Beijing MOFCOM are the competent authorities to give such confirmation in respect of foreign investments. Based on the information in the official websites of such authorities regarding their respective functions as well as the officer's introduction of their responsibilities and confirmation provided during the interview, the PRC legal adviser of the Company is of the view that the officers of NHC and Beijing MOFCOM who provided the regulatory confirmations are competent persons to give such confirmations.

Based on the interview above, our PRC Legal Advisers is of the opinion that, the Company, as a foreign entity, shall not hold, either directly or indirectly, more than (i) 90% equity interest in the Company's hair transplant institutions located in Sichuan province; and (ii) 70% equity interest in the Company's hair transplant institutions located in other provinces other than Sichuan (collectively, the "**Foreign Ownership Restriction**").

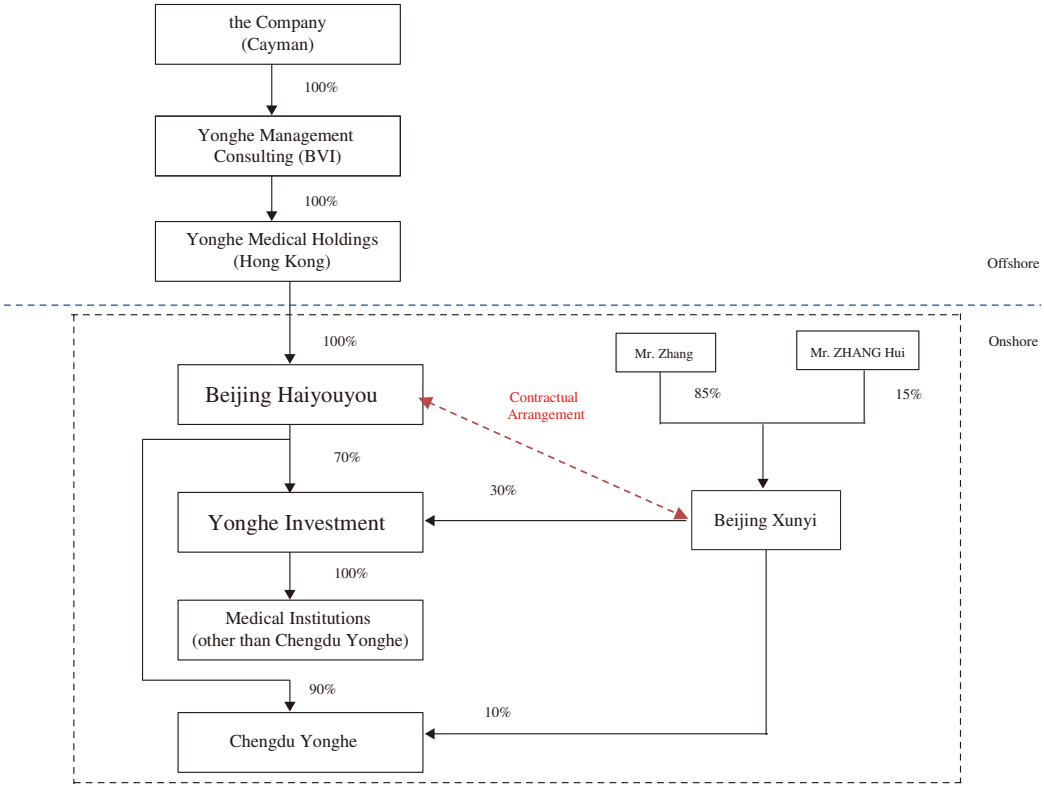
The Contractual Arrangements are narrowly tailored to address solely the Foreign Ownership Restriction as set forth in the above paragraph. The Contractual Arrangements are also narrowly tailored to achieve the business purposes of the Company and to minimize the potential conflict with relevant PRC laws and regulations. The Company will not incur additional income tax and business tax after the entering into of the Contractual Arrangements.

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

As regards 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 operating medical institution 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

The Contractual Arrangements apply to the 30% and 10% equity interests in Yonghe Investment and Chengdu Yonghe, respectively. Yonghe Investment is the holding company of our Medical Institutions (other than Chengdu Yonghe). The following simplified diagram illustrates the flow of economic benefits from our VIE Entities to our Group as stipulated under the Contractual Arrangements:




*Notes:*

1. Mr. Zhang and Mr. ZHANG Hui are the Registered Shareholders.
2. "—▶" denotes direct legal and beneficial ownership in the equity interest.
3. "◀---▶" denotes contractual relationship.
4. "---" denotes the entities that are subject to the Contractual Arrangements.

## 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.

### (1) Exclusive Operation Services Agreement

The Registered Shareholders, Beijing Xunyi, Yonghe Investment and the VIE Entities have entered into exclusive operation services agreements with Beijing Haiyouyou on January 6, 2021 (the "**Exclusive Operation Services Agreement**"), pursuant to which, the VIE Entities, Registered Shareholders and Beijing Xunyi agreed to engage Beijing Haiyouyou as their exclusive provider of technical support, consulting services and other services in exchange for a service fee.

Under the Exclusive Operation Services Agreement, the services to be provided include but are not limited to (i) business, financing and investment, (ii) medical technology related consultation, medical resources sharing and medical professionals training, (iii) human resources management, (iv) market research, (v) strategies for marketing and business expansion, (vi) supplier and inventory management, (vii) operation and marketing strategy formulation and monitoring, (viii) medical service quality control, (ix) internal management and (x) other services relating to management and operation of medical institutions. Beijing Haiyouyou has proprietary rights to all the intellectual properties developed or created by itself from the performance of these services. During the term of the Exclusive Operation Service Agreement, Beijing Haiyouyou may use the intellectual property rights owned by Beijing Xunyi and the VIE Entities free of charge and without any conditions. Beijing Xunyi and the VIE Entities may also use the intellectual property work created by Beijing Haiyouyou from the services performed by Beijing Haiyouyou in accordance with the Exclusive Operation Service Agreement.

Under the Exclusive Operation Services Agreement, the service fee shall be an amount equal to the distributable net profit of the VIE Entities of a given audited financial year, after deducting losses from the previous financial years (if any) and any statutory provident fund (if applicable). Apart from the service fees, Beijing Xunyi and the VIE Entities shall reimburse all reasonable costs, reimbursed payments and out-of-pocket expenses incurred by Beijing Haiyouyou in connection with the performance of the Exclusive Operation Services Agreement and provision of services.

In addition, absent of a prior written consent of Beijing Haiyouyou, during the term of the Exclusive Operation Services Agreement, the Registered Shareholders, Beijing Xunyi and the VIE Entities shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar corporation relationships with any third party. Beijing Haiyouyou has the right to appoint any third party to provide any or all of the services, or to fulfill its obligations under the Exclusive Operation Services Agreement.

The Exclusive Operation Services Agreement shall become effective from January 6, 2021, and shall remain valid for three years and shall, subject to compliance with the Listing Rules, be automatically renewed for three years each time when its term ends, unless being terminated in accordance with the terms therein.

According to the Exclusive Operation Services Agreement, unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except Beijing Haiyouyou) is entitled to unilaterally terminate the agreement. Furthermore, pursuant to the Exclusive Operation

Services Agreement, it may only be terminated in the event that (i) continued performance of the obligations of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Beijing Haiyouyou or its designated person directly holds all the equity interests in Beijing Xunyi, and all of the Registered Shareholders' equity interests in Beijing Xunyi or all of the assets of Beijing Xunyi attributable to the Registered Shareholders are transferred to Beijing Haiyouyou pursuant to applicable PRC laws and regulations, or (iii) Beijing Haiyouyou unilaterally terminates the agreement.

**(2) Exclusive Option Agreements**

On January 6, 2021, Beijing Haiyouyou, the Registered Shareholders, Beijing Xunyi, Yonghe Investment and the VIE Entities entered into exclusive option agreements (the "**Exclusive Option Agreements**").

Pursuant to the Exclusive Option Agreements, (i) each of the Registered Shareholders irrevocably and unconditionally grants an exclusive option to Beijing Haiyouyou which entitles Beijing Haiyouyou to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interest in Beijing Xunyi itself or through its designated person(s), (ii) Beijing Xunyi irrevocably and unconditionally grants an exclusive option to Beijing Haiyouyou which entitles Beijing Haiyouyou to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Beijing Xunyi itself or through its designated person(s), (iii) Beijing Xunyi irrevocably and unconditionally grants an exclusive option to Beijing Haiyouyou which entitles Beijing Haiyouyou to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests held by Beijing Xunyi in the VIE Entities from Beijing Xunyi itself or through its designated person(s), (iv) Yonghe Investment irrevocably and unconditionally grants an exclusive option to Beijing Haiyouyou which entitles Beijing Haiyouyou to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests of the Medical Institutions (other than Chengdu Yonghe) held by Yonghe Investment, and (iv) VIE Entities irrevocably and unconditionally grant an exclusive option to Beijing Haiyouyou which entitles Beijing Haiyouyou to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the VIE Entities from the VIE Entities themselves or through their designated person(s), Beijing Haiyouyou may appoint designated person(s) in its sole discretion when exercising its option. The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of the Registered Shareholders, Beijing Xunyi and the VIE Entities will undertake that he/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer of equity interests or assets to Beijing Haiyouyou and/or its designated person(s) within ten (10) business days.

The Registered Shareholders and BeijingXunyi undertake to develop the business of the VIE Entities and not to take any action which may affect their asset value, goodwill and effectiveness of business licenses. Furthermore, in the absence of prior written consent of Beijing Haiyouyou, the Registered Shareholders and BeijingXunyi shall not (i) transfer or otherwise dispose of any option under the Exclusive Option Agreements, or create any encumbrances thereon; and the VIE Entities shall not assist in transferring or otherwise disposing of any option under the Exclusive Option Agreements, or creating any encumbrances thereon; and (ii) directly or indirectly (by itself or through the entrustment of any other natural person or legal person entity) carry out, own or acquire any business compete with or likely compete with the business of Beijing Haiyouyou or our Group.

In addition, the Registered Shareholders, BeijingXunyi and the VIE Entities undertake that, upon Beijing Haiyouyou issuing the notice to exercise the option in accordance with the Exclusive Option

Agreements, they will implement necessary actions to affect the transfer and relinquish any pre-emptive right, if any. Each of the parties to the Exclusive Option Agreements confirms and agrees that (i) in the event of a dissolution or liquidation of Beijing Xunyi and the VIE Entities (as applicable) under the PRC laws, all the residual assets which are attributable to the Registered Shareholders and Beijing Xunyi (as applicable) shall be transferred to Beijing Haiyouyou or its designated person(s) at the minimum purchase price permitted under PRC law, and each of the Registered Shareholders, Beijing Xunyi and the VIE Entities undertakes that they will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer to Beijing Haiyouyou or its designated person(s), (ii) in the event of bankruptcy, reorganization or merger of Beijing Xunyi, death or incapacity of the Registered Shareholders or any other event which causes changes to the Registered Shareholders' shareholding in Beijing Xunyi and Beijing Xunyi's shareholding in the VIE Entities, (a) the successor of the Registered Shareholders' equity interest in Beijing Xunyi and the successor of Beijing Xunyi's equity interest in the VIE Entities shall be bound by the Contractual Arrangements, and (b) any disposal of shareholding in Beijing Xunyi and the VIE Entities shall be governed by the Contractual Arrangements unless Beijing Haiyouyou consents otherwise in writing.

Exclusive Option Agreements shall become effective from January 6, 2021. Each of the Exclusive Option Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreements (except Beijing Haiyouyou) is entitled to unilaterally terminate the agreements.

Each of the Exclusive Option Agreements may only be terminated in the event that (i) continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Beijing Haiyouyou or its designated person directly holds all the equity interests in Beijing Xunyi, and all of the Registered Shareholders' equity interests in Beijing Xunyi or all of the assets of Beijing Xunyi attributable to the Registered Shareholders are transferred to Beijing Haiyouyou pursuant to applicable PRC laws and regulations, (iii) Beijing Haiyouyou or its designated person directly holds all the equity interests in Beijing Xunyi and all of Beijing Xunyi's equity interests in the VIE Entities or all of the assets of the VIE Entities are transferred to Beijing Haiyouyou pursuant to applicable PRC laws and regulations or (iv) Beijing Haiyouyou unilaterally terminates the agreements.

**(3) Shareholders' Rights Entrustment Agreements**

On January 6, 2021, Beijing Haiyouyou, the Registered Shareholders, Beijing Xunyi, Yonghe Investment and the VIE Entities entered into the shareholders' rights entrustment agreements (the "**Shareholders' Rights Entrustment Agreements**").

Pursuant to the Shareholders' Rights Entrustment Agreements, (i) the Registered Shareholders irrevocably agree to authorize Beijing Haiyouyou (and its successors or liquidators) or a natural person designated by Beijing Haiyouyou to exercise all of its rights and powers as a shareholder of Beijing Xunyi, including the rights to vote at a shareholders' meeting, sign minutes, and file documents with the relevant companies registry, (ii) Beijing Xunyi irrevocably agrees to authorize Beijing Haiyouyou (and its successors or liquidators) or a natural person designated by Beijing Haiyouyou to exercise all of its rights and powers as a shareholder of Yonghe Investment and Chengdu Yonghe (as applicable), including the rights to vote at a shareholders' meeting, sign minutes, and file documents with the relevant companies registry, and (iii) Yonghe Investment irrevocably agrees to authorize Beijing Haiyouyou (and its successors or liquidators) or a natural person designated by Beijing Haiyouyou to exercise all of its

rights and powers as a shareholder of each of the Medical Institutions (other than Chengdu Yonghe) held by it, including the rights to vote at a shareholders' meeting, sign minutes, and file documents with the relevant companies registry. Pursuant to the Shareholders' Rights Entrustment Agreements, the power of attorney granted in favor of the Company and actions it takes in relation to the Contractual Arrangement will only be decided by officers or Directors who are not the Registered Shareholders. As Beijing Haiyouyou is a subsidiary of the Company, the terms of the Shareholders' Rights Entrustment Agreements will give the Company control over all corporate decisions of the VIE Entities and 100% equity interests of Beijing Xunyi.

Shareholders' Rights Entrustment Agreements shall become effective from January 6, 2021. Each of the Shareholders' Rights Entrustment Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except Beijing Haiyouyou) is entitled to unilaterally terminate it.

Each of the Shareholders' Rights Entrustment Agreements may only be terminated in the event that (i) continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Beijing Haiyouyou or its designated person directly holds all the equity interests in Beijing Xunyi, and all of the Registered Shareholders' equity interests in Beijing Xunyi or all of the assets of Beijing Xunyi are transferred to Beijing Haiyouyou pursuant to applicable PRC laws and regulations, (iii) Beijing Haiyouyou or its designated person directly holds all the equity interests in VIE Entities and all of the Beijing Xunyi's equity interests in VIE Entities or all of the assets of VIE Entities attributable to Beijing Xunyi are transferred to Beijing Haiyouyou pursuant to applicable PRC laws and regulations; or (iv) Beijing Haiyouyou unilaterally terminates the agreement.

**(4) Equity Pledge Agreements**

On January 6, 2021, Beijing Xunyi, the Registered Shareholders, Beijing Haiyouyou, Yonghe Investment and Chengdu Yonghe entered into equity pledge agreements (the "**Equity Pledge Agreements**"). Pursuant to the Equity Pledge Agreements, (i) the Registered Shareholders agree to pledge all of their respective equity interests in Beijing Xunyi, and (ii) Beijing Xunyi agrees to pledge all of its equity interests in Yonghe Investment and Chengdu Yonghe to Beijing Haiyouyou to secure performance of all their obligations and the obligations of the Registered Shareholders, Beijing Xunyi, Yonghe Investment and Medical Institutions (where applicable) under the Exclusive Operation Services Agreement, the Exclusive Option Agreements, the Shareholders' Rights Entrustment Agreements and the Equity Pledge Agreements underlying the Contractual Arrangements.

If Yonghe Investment, Chengdu Yonghe and Beijing Xunyi declare any dividend during the term of the pledge, Beijing Haiyouyou is entitled to receive all dividends or other income arising from the pledged equity interests, if any. In case of any breach of obligations by any of Beijing Xunyi, the Registered Shareholders and Yonghe Investment, Chengdu Yonghe, Beijing Haiyouyou, upon issuing a written notice to the Registered Shareholders or Beijing Xunyi, will be entitled to all remedies available in the Contractual Arrangements including but not limited to disposing of the pledged equity interests.

In addition, pursuant to the Equity Pledge Agreements, the Registered Shareholders and Beijing Xunyi undertake to Beijing Haiyouyou, among other things, not to transfer their pledged equity interests and not to create or allow any pledge or encumbrance thereon that may affect the rights and interest of Beijing Haiyouyou without its prior written consent. Beijing Xunyi, Yonghe Investment and Chengdu

Yonghe undertake to Beijing Haiyouyou, among other things, not to consent to any transfer the pledged equity interests or to create or allow any pledge or encumbrance thereon without Beijing Haiyouyou's prior written consent.

The pledges in respect of Beijing Xunyi, Yonghe Investment and Chengdu Yonghe takes effect upon the completion of registration with the relevant Administration for Market Regulations and we have registered the equity pledges contemplated under the Equity Pledge Agreements with the relevant PRC legal authority pursuant to PRC laws and regulations.

Equity Pledge Agreements became effective from January 6, 2021. Each of the Equity Pledge Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except Beijing Haiyouyou) is entitled to unilaterally terminate it.

Each of the Equity Pledge Agreements may only be terminated in the event that (i) continued performance of the obligations of the agreement will result in violation of or non-compliance with the applicable laws and regulations, the Listing Rules or the requirements of the Stock Exchange, (ii) Beijing Haiyouyou or its designated person directly holds all the equity interests in Beijing Xunyi, and all of the Registered Shareholders' equity interests in Beijing Xunyi or all of the assets of Beijing Xunyi are transferred to Beijing Haiyouyou pursuant to applicable PRC laws and regulations, (iii) Beijing Haiyouyou or its designated person directly holds all the equity interests in Yonghe Investment and Chengdu Yonghe or all of the assets of Yonghe Investment and Chengdu Yonghe attributable to Beijing Xunyi are transferred to Beijing Haiyouyou pursuant to applicable PRC laws and regulations or (iv) Beijing Haiyouyou unilaterally terminates the agreement.

**(5) Spouse Undertakings**

The spouses of each of the Registered Shareholders has signed an undertaking (the "**Spouse Undertakings**") to the effect that each of the spouses has no right to or control over such interests of the respective persons and will not have any claim on such interests.

Our PRC Legal Advisers are of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of the Registered Shareholders, and (ii) the death or divorce of the Registered Shareholders would not affect the validity of the Contractual Arrangements, and Beijing Haiyouyou or our Company can still enforce their right under the Contractual Arrangements against the Registered Shareholders and their successors.

**Common terms of the Contractual Arrangements**

***Dispute Resolution***

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules.

The language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award

remedies over the shares or assets of the Registered Shareholders, Beijing Xunyi and the VIE Entities or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Beijing Xuyi and the VIE Entities; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of Beijing Haiyouyou or Beijing Xunyi or our VIE Entities are located for interim remedies or injunctive relief.

However, our PRC Legal Advisers have advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Beijing Xunyi and the VIE Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

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

***Succession***

As advised by our PRC Legal Advisers, the provisions set out in the Contractual Arrangements are also binding on any successor(s) of the Registered Shareholders as if such successors were a signing party to the Contractual Arrangements. As such, any breach by the successors would be deemed to be a breach of the Contractual Arrangements. Under the PRC Civil Code, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents. In the case of a breach, Beijing Haiyouyou can enforce its rights against the successors. Pursuant to the Contractual Arrangements, in the event of changes in the shareholding of Beijing Xunyi, any successor(s) of Beijing Xunyi shall assume any and all rights and obligations of Beijing Xunyi under the Contractual Arrangements as if such successor were a signing party to the relevant contract.

***Conflicts of Interests***

Each of Registered Shareholders and Beijing Xunyi undertake that, during the period that the Contractual Arrangements remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with Beijing Haiyouyou or its direct or indirect shareholders. If there is any conflict of interest, Beijing Haiyouyou 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. Registered Shareholders and Beijing Xunyi will unconditionally follow the instructions of Beijing Haiyouyou to take any action to eliminate such conflict of interest.

***Loss Sharing***

Under the relevant PRC laws and regulations, none of our Company or Beijing Haiyouyou is legally required to share the losses of, or provide financial support to Beijing Xunyi and the VIE Entities. Further, Beijing Xunyi and the VIE Entities are limited liability companies and shall be solely liable for its own debts and losses with assets and properties owned by them. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through Beijing Xunyi and the VIE

Entities, which hold the requisite PRC operational licenses and approvals, and that its financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if Beijing Xunyi and the VIE Entities suffer losses.

***Liquidation***

Pursuant to the Equity Interest Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of Beijing Xunyi and the VIE Entities shall, upon the request of Beijing Haiyouyou, give the proceeds they received from liquidation as a gift to Beijing Haiyouyou or its designee(s) to the extent permitted by the PRC laws.

Accordingly, in the event a winding up of Beijing Xunyi and the VIE Entities, Beijing Haiyouyou is entitled to liquidation proceeds of Beijing Xunyi and the VIE Entities based on the Contractual Arrangements for the benefit of our Company's creditors and shareholders.

***Insurance***

Our Company does not maintain an 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 Beijing Xunyi and the VIE Entities under the Contractual Arrangements.

**Legality of the Contractual Arrangements**

As advised by our PRC Legal Advisers, NHC and Beijing MOFCOM as the competent authorities for foreign investment administration of the Company, are of the view that the Company, as a foreign entity, shall not hold more than 90% and 70% shares in any medical institution in Chengdu Yonghe and Yonghe Investment, respectively.

Our PRC Legal Advisers conducted an interview with officers of Beijing MOFCOM and NHC in respect of the proposed Contractual Arrangements entitling the Company to control the other 10% equity interest in Chengdu Yonghe and the other 30% equity interest in Yonghe Investment. According to the officers interviewed, (i) no approval from the authority is required for the execution of the Contractual Arrangements; (ii) the execution of the Contractual Arrangements does not fall into the current supervision of NHC and Beijing MOFCOM concerning foreign investment activities; and (iii) the Contractual Arrangements does not violate any prohibitive or restrictive provisions with respect to under current PRC law. Our PRC Legal Advisers are of the view that NHC and Beijing MOFCOM are the competent authorities to give such confirmation in respect of foreign investments.

Based on the above, our PRC Legal Adviser is of the opinion that:

- each of the agreements under the Contractual Arrangements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto except that

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

- no approval or authorization from the PRC governmental authorities are required for entering into and the performance of the Contractual Arrangements except that each of the equity pledges under Equity Pledge Agreements is subject to registration requirements with the relevant Administration for Market Regulations and the exercising of the exclusive options by Beijing Haiyouyou, according to the Exclusive Option Agreements, shall be subject to the then effective PRC laws and regulations and relevant approval procedures (if applicable).

Furthermore, the PRC Civil Code (中華人民共和國民法典) came into effect on January 1, 2021 and the PRC Contract Law and the General Principles of the PRC Civil Law were repealed simultaneously. The PRC Civil Code stipulates certain circumstances which will lead to the invalidation of civil juristic acts, including but not limited to a civil juristic act performed by a person having no capacity for civil conducts, a civil juristic act performed by the actor and the counterparty based on false expression of intention, a civil juristic act violates the mandatory provisions of laws and administrative regulations, a civil juristic act violates of public order and morals, etc. The provisions on the validity of civil juristic acts also apply to the validity of contracts. Our PRC Legal Adviser is of the view that the Contractual Arrangements would not fall within the above circumstances which will lead such arrangements as invalid civil juristic act under the PRC Civil Code.

We have been advised by our PRC Legal Advisers, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisers. We have been further advised by our PRC Legal Advisers that if the PRC government finds that the Contractual Arrangements do not comply with PRC government restrictions on foreign investment in the Relevant Businesses, we could be subject to severe penalties, which could include:

(a) revoking the business and operating licenses of Beijing Haiyouyou, Yonghe Investment and our VIE Entities;

(b) restricting or prohibiting the Contractual Arrangements among Beijing Haiyouyou, Yonghe Investment and our VIE Entities;

(c) imposing fines or other requirements with which our Company, Beijing Haiyouyou, Yonghe Investment and our VIE Entities may find difficult or impossible to comply; and

(d) requiring us, Beijing Haiyouyou, Yonghe Investment and our VIE Entity to restructure the relevant ownership structure or operations.

The imposition of any of these penalties could have a material adverse effect on our ability to conduct our business. See "Risk Factors — Risks Relating to Our Contractual Arrangements." for detailed information.

**Development in the PRC Legislation on Foreign Investment**

***Background of the FIL***

On March 15, 2019, the NPC promulgated 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**") and replaced effective on January 1, 2020. After the FIL comes into effect, the FIL replaced the law on Sino-Foreign Equity Joint Ventures (《中外合資經營企業法》), the law on Sino-Foreign Contractual Joint Ventures (《中外合作經營企業法》) and the law on Foreign-Capital Enterprises (《外資企業法》) and became the legal foundation for foreign Investment in the PRC. The FIL stipulates three forms of foreign investment, but does not explicitly stipulate the contractual arrangements as a form of foreign investment.

***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. As advised by our PRC Legal Advisers, since Contractual Arrangements are not specified as foreign investment under the FIL, the Implementation Regulations on the FIL and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, then the possibility that the legal effectiveness of the Contractual Arrangements become materially adversely affected due to violation of the entry requirements under the FIL is relatively low.

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". There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council the NPC promulgated may regard Contractual Arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of the VIE Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. Please refer to the section headed "Risk Factors — Risks Relating to Our Contractual Arrangements".

**Compliance with the Contractual Arrangements**

Our Group will adopt the following measures to ensure the effective operation of our Group with the implementation and compliance of 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 on an occurrence basis;

(b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(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; and

(d) 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 Beijing Haiyouyou, Beijing Xunyi and the VIE Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that the Registered Shareholders, Mr. Zhang and Mr. Zhang Hui, are our Directors, our Company believes that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the [**REDACTED**] 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;

(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 Exclusive Operation Services Agreements, it was agreed that, in consideration of the services provided by Beijing Haiyouyou, Beijing Xunyi will pay service fees to Beijing Haiyouyou. The annual service fees payable are determined with the services provided. The amount and payment deadline will be determined by Beijing Haiyouyou and Beijing Xunyi through arms' length negotiations after considering (i) the complexity and difficulty of the services provided by Beijing Haiyouyou, (ii) the title of and time consumed by employees of Beijing Haiyouyou providing the services, (iii) the contents and value of the services provided by Beijing Haiyouyou, (iv) the market price of the same type of services,

(v) the operation conditions of the Registered Shareholders and Beijing Xunyi, and (vi) the essential cost, expenses, taxes and statutory reserve or retaining funds. Accordingly, through the Exclusive Operation Services Agreement, Beijing Haiyouyou has the ability, at its sole discretion, to extract substantially (i) 30% of the economic benefit of Yonghe Investment derived from the 67 medical institutions, respectively, and (ii) 10% of the economic benefit of Chengdu Yonghe.

In addition, under the Exclusive Operation Services Agreements, Beijing Haiyouyou has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of Beijing Xunyi and the VIE Entities as Beijing Haiyouyou's prior written consent is required before any distribution can be made. In the event that Beijing Xunyi and the Registered Shareholders receive any profit distribution or dividend from the VIE Entities, Beijing Xunyi and the Registered Shareholders must immediately pay or transfer all of such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company.

As a result of the aforementioned Contractual Arrangements, our Company has obtained control of the VIE Entities through Beijing Haiyouyou and, at our Company's sole discretion, can receive substantially all of the economic interest returns generated by the VIE Entities.

## AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid prior to and immediately following the completion of the [**REDACTED**]:

| | | **Aggregate par value** *(US$)* |
|---|---|---|
| *Authorized share capital* | | |
| 20,000,000,000 | Shares of par value of US$0.0000025 each as at the Latest Practicable Date | 50,000.00 |
| *Issued and to be issued, fully paid or credited as fully paid immediately upon completion of the* [**REDACTED**] | | |
| 425,531,916 | Shares in issue as at the date of this document | 1,063.82979 |
| [**REDACTED**] | Shares to be issued under the [**REDACTED**] | [**REDACTED**] |
| [**REDACTED**] | Total | [**REDACTED**] |

## ASSUMPTION

The above table assumes that the [**REDACTED**] becomes unconditional and the Shares are issued pursuant to the [**REDACTED**]. The above table does not take into account any Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**] 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.

## RANKING

The [**REDACTED**] are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set forth in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this document.

## CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company will have only one class of Shares upon completion of the [**REDACTED**], namely ordinary shares, and each ranks pari passu with the other Shares. Pursuant to the Companies Act and the terms of the Memorandum of Association and 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) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Act reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, please refer to the section headed "Summary of the Constitution of Our Company and Cayman Islands Company Law" in Appendix III to this document.

## GENERAL MANDATE TO ISSUE SHARES

Subject to the [**REDACTED**] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

(a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the [**REDACTED**]; and

(b) the nominal amount of our share capital repurchased by the Company (if any) pursuant to the repurchase mandate (as mentioned below).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders or upon the exercise of the [**REDACTED**].

This mandate to issue Shares will remain in effect until:

(i) at the conclusion of our next annual general meeting; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or

(iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest.

For further details of this general mandate, see "Appendix IV — Statutory and General Information — A. Further Information about Our Group — 4. Resolutions of the Shareholders of the Company Passed on [●]" in this document.

## GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [**REDACTED**] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the [**REDACTED**] (excluding any Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**].

This mandate relates to repurchases made on the Stock Exchange, or on any other stock exchange which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Statutory and General Information — Repurchase of Our Shares".

This general mandate to repurchase Shares will remain in effect until:

(a) at the conclusion of our next annual general meeting; or

(b) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or

(c) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting, whichever is the earliest.

For further details of this general mandate, see "Appendix IV — Statutory and General Information — A. Further Information about Our Group — 4. Resolutions of the Shareholders of the Company Passed on [●]" in this document.

## OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), our Company will be held as to approximately [**REDACTED**]% by Mr. Zhang through ZY Investment Capital Ltd and Yunuo Technology Holdings Limited. ZY Investment Capital Ltd is wholly-owned by ZY Ventures Ltd, which is in turn wholly-owned by Frandor Limited. Frandor Limited is wholly-owned by Trident Trust Company (Singapore) Pte. Limited, which is the trustee of The ZY Trust, a discretionary trust established by Mr. Zhang as the settlor.

Yonghe Hair Service and CYH has been forming agreed-upon decisions amongst themselves before general meetings of the Company were convened and casting the same voting decisions at general meetings of the Company. As such, immediately upon completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), Yonghe Hair Service and CYH can jointly control the exercise of the [**REDACTED**]% voting rights in our Company.

Yonghe Hair Service is wholly-owned by Panmao Shanghai the general partner of which is Shanghai Pannuo, which is in turn wholly-owned by CITIC Private Equity Funds Management Co., Ltd. CITIC Private Equity Funds Management Co., Ltd is owned as to 35% by CITIC Securities Company Limited, a company listed on both the Stock Exchange and the Shanghai Stock Exchange. CYH is wholly-owned by CYH Cosmetic Medical Investment Limited, which in turn is owned as to approximately 86.3% by CPEChina Fund II and 13.7% by CPEChina Fund IIA. The general partner of CPEChina Fund II and CPEChina Fund IIA is Citron PE Associates II. Citron PE Associates II is an exempted limited partnership registered under the laws of the Cayman Islands whose general partner is Citron PE Funds II, a company is wholly-owned by Citron PE Holdings Limited, which is held as to 35% by CLSA Global Investments Management Limited. Each of Panmao Shanghai, CPEChina Fund II and CPEChina Fund IIA is an investment holding entity principally engaged in private equity investment.

Therefore, for the purpose of this document, (i) Mr. Zhang, ZY Investment Capital Ltd, ZY Ventures Ltd, (ii) Yonghe Hair Service, Panmao Shanghai, Shanghai Pannuo, CITIC Private Equity Funds Management Co., Ltd., CYH, CYH Cosmetic Medical Investment Limited, CPEChina Fund II, CPEChina Fund IIA, Citron PE Associates II, Citron PE Funds II, Citron PE Holdings Limited are our Controlling Shareholders. Frandor Limited is a nominee shareholder holding shares of ZY Ventures Ltd on behalf of The ZY Trust and is wholly-owned by Trident Trust Company (Singapore) Ptd. Limited. Trident Trust Company (Singapore) Pte. Limited as a professional trustee and Frandor Limited as a nominee shareholder are not entitled to exercise or control the exercise of any voting powers at general meeting of the Company and therefore are not regarded as our Controlling Shareholder.

## DELINEATION OF BUSINESS

As of the Latest Practicable Date, our Controlling Shareholders confirm that they did not have an interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, that requires disclosure under Rule 8.10 of the Listing Rules.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

The Controlling Shareholders confirm that as of the Latest Practicable Date, they did 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 our business, and requires disclosure under Rule 8.10 of the Listing Rules.

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholder and their close associates after the [**REDACTED**].

**Management Independence**

The Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. Each of our Directors is aware of his or her fiduciary duties as a Director which require, among others, that he or she must act for the benefit of and in the best interests of our Company and not allow any conflict between his or her duties as a Director and his personal interests. Further, we believe our independent non-executive Directors will bring independent judgment to the decision-making process of our Board. See "— Corporate Governance Measures" for further details.

Based on the above, our Directors are satisfied that our 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 us after [**REDACTED**], we have full rights to make all decisions on, and to carry out, our own business operations independently. Our Company, through our subsidiaries, holds the licenses and qualifications necessary to carry on our current business, and has sufficient capital, facilities, technology and employees to operate the business independently from our Controlling Shareholder. We have access to third parties independently from and not connected to our Controlling Shareholder for sources of suppliers and customers.

Based on the above, our Directors are satisfied that we will be able to function and operate independently from our Controlling Shareholders and their close associates.

**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 functions 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. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. In addition, we have been and are capable of obtaining financing from third parties without relying on any guarantee or security provided by our Controlling Shareholders or their respective associates. During the Track Record Period and as of the Latest Practicable Date, there were no loans, advances and balances due to and from the Controlling Shareholders.

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance on our Controlling Shareholders and their close associates after the [**REDACTED**].

## CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

(a) under the Articles of Association, where a Shareholders' meeting is to be held for considering proposed transactions in which any of our Controlling Shareholder or any of their associates has a material interest, the Controlling Shareholders or their associates will not vote on the relevant resolutions;

(b) our Company has established internal control mechanisms to identify connected transactions. Upon the [**REDACTED**], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;

(c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholder (the "**Annual Review**") and provide impartial and professional advice to protect the interests of our minority Shareholders;

(d) our Controlling Shareholder will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;

(e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;

(f) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expenses; and

(g) we have appointed Somerley Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations in Hong Kong, as well as the Listing Rules, including various requirements relating to corporate governance from the [**REDACTED**] to the date when our Company distribute our annual report of our financial results for the first full financial year commencing after the [**REDACTED**].

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the [**REDACTED**].

## OVERVIEW

Prior to the [**REDACTED**], our Group has entered into certain transactions with parties who will, upon the [**REDACTED**], become connected persons (as defined in the Listing Rules) of our Company. Details of the non-exempt continuing connected transaction of our Company following the [**REDACTED**] are set out below.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS — CONTRACTUAL ARRANGEMENTS

### Background for the Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements" of this document, due to regulatory restrictions on foreign ownership in the PRC, we are restricted from directly owning 100% equity interest in the Medical Institutions. Therefore, in order for our Group to effectively control and enjoy the entire economic benefit of the Medical Institutions, a series of Contractual Arrangements have been entered into among Beijing Haiyouyou, the VIE Entities, Beijing Xunyi, and the Registered Shareholders. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits of the VIE Entities and Beijing Xunyi; (ii) exercise effective full control over the VIE Entities and Beijing Xunyi; and (iii) hold an exclusive option to purchase all or part of the equity interests in the VIE Entities and/or Beijing Xunyi when and to the extent permitted by PRC law.

### Principal Terms of the Transactions

The Contractual Arrangements consist of five types of agreements: (a) the Exclusive Operation Services Agreement; (b) the Exclusive Option Agreements; (c) the Shareholders' Rights Entrustment Agreements; (d) the Equity Pledge Agreements; and (e) the Spouse Undertakings (all as defined in the section headed "Contractual Arrangements" in this document) (the "**Contractual Arrangements Agreements**"). See "Contractual Arrangements" in this document for detailed terms of the Contractual Arrangements.

### Listing Rules Implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon [**REDACTED**] as certain parties to the Contractual Arrangements, namely Mr. Zhang, Mr. ZHANG Hui and Beijing Xunyi, are connected persons of the Group. Mr. Zhang is one of our Controlling Shareholders and Directors, Mr. ZHANG Hui is one of our Directors, therefore Mr. Zhang and Mr. ZHANG Hui are connected persons of our Company. Beijing Xunyi is owned by Mr. Zhang and Mr. ZHANG Hui as to 85% and 15% respectively, and therefore is an associate of Mr. Zhang and a connected person of our Company.

### Reasons for the Continuing Connected Transactions and Waiver Application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole. In addition, given the Contractual Arrangements were entered into prior to the [**REDACTED**] and are disclosed in this document, and

potential investors of our Company will participate in the [**REDACTED**] on the basis of such disclosure. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, 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.

## WAIVER FROM THE STOCK EXCHANGE

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions 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 [**REDACTED**] on the Stock Exchange subject however to the following conditions:

(a) **No change without independent non-executive Directors' approval.** No change to the Contractual Arrangements (including with respect to any fees payable to Beijing Haiyouyou thereunder) will be made without the approval of our independent non-executive Directors.

(b) **No change without independent Shareholders' approval.** Save as described in "(d) Renewal and reproduction" below, no change to the agreements constituting the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement, circular or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in " (e) Ongoing reporting and approvals" below) will however continue to be applicable.

(c) **Economic benefits flexibility.** The Contractual Arrangements shall continue to enable our Group to receive the entire economic benefits derived by the VIE Entities and Beijing Xunyi through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests in Beijing Xunyi and/or Yonghe Investment and Chengdu Yonghe for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the entire profit generated by the VIE Entities and Beijing Xunyi is retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Beijing Haiyouyou by Beijing Xunyi under the Exclusive Consultation and Service Agreement, and (iii) the Group's right to control the management and operation of, in substance, all of the voting rights of the VIE Entities and Beijing Xunyi.

(d) **Renewal and reproduction.** On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Beijing Xunyi, on the

other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new foreign invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or Substantial Shareholders of any existing or new foreign invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) **Ongoing reporting and approvals.** Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

(i) The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report 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 Company'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 Yonghe Investment or Chengdu Yonghe to Beijing Xunyi or by Beijing Xunyi to the Registered Shareholders 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 Beijing Xunyi during the relevant financial period under paragraph (iii) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

(iii) Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to 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 Yonghe Investment or Chengdu Yonghe to Beijing Xunyi or by Beijing Xunyi to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group.

(iv) For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the VIE Entities and Beijing Xunyi will be treated as our Company's wholly-owned subsidiary, and at the same time, the directors, chief executive officers or substantial shareholders of the VIE Entities and Beijing Xunyi (where applicable) and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the VIE Entities), and

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.

(v) Beijing Xunyi will undertake that, for so long as the Shares are [**REDACTED**] on the Stock Exchange, Beijing Xunyi will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the connected transactions.

## CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and with respect to the term of the Contractual Arrangements Agreements which is of a duration of longer than three years, taking into consideration the reasons for entering into the Contractual Arrangements with details set out in this section above, it is reasonable for these agreements to be for a duration of more than three years and it is normal business practice for agreements of this type to be of such duration. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, 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.

## CONFIRMATION FROM THE JOINT SPONSORS

Based on the documentation provided by the Company and the Joint Sponsor's participation in the due diligence and discussion with the management of the Company and the PRC Legal Adviser, the Joint Sponsors are of the view that the Contractual Arrangements are fundamental to our Group's legal structure and business operations and that the Contractual Arrangements have been entered into in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole.

The Joint Sponsors are of the view that with respect to the term of those Contractual Arrangements Agreements which is of a duration of longer than three years, taking into consideration the reasons for entering into the Contractual Arrangements with details set out in this section above, it is reasonable for these agreements to be for a duration of more than three years and it is normal business practice for agreements of this type to be of such duration.

So far as our Directors are aware, immediately following the completion of the [**REDACTED**] and without taking into account any Shares which may be issued pursuant to the exercise of the [**REDACTED**], the following persons will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

| Name | Capacity/nature of interest[(1)] | Number of Shares held as of the Latest Practicable Date | Approximate percentage of shareholding in the total issued share capital of our Company as of the Latest Practicable Date | Number of Shares held immediately following completion of the [REDACTED] | Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the [REDACTED] |
|---|---|---|---|---|---|
| ZY Investment Capital Ltd[(2)] | Beneficial owner | 161,531,916 | 37.96% | [**REDACTED**] | [**REDACTED**] |
| ZY Ventures Ltd[(2)] | Interest in controlled corporation | 161,531,916 | 37.96% | [**REDACTED**] | [**REDACTED**] |
| Yunuo Technology Holdings Limited[(3)] | Beneficial owner | 20,000,000 | 4.70% | [**REDACTED**] | [**REDACTED**] |
| Shanghai Yuxin Technology Partnership (Limited Partnership)[(3)] | Interest in controlled corporation | 20,000,000 | 4.70% | [**REDACTED**] | [**REDACTED**] |
| Shanghai Yuhe Technology Company Limited[(3)] | Interest in controlled corporation | 20,000,000 | 4.70% | [**REDACTED**] | [**REDACTED**] |
| Mr. Zhang[(2)(3)] | Interest in controlled corporation | 181,531,916 | 42.66% | [**REDACTED**] | [**REDACTED**] |
| Yonghe Hair Service[(4)] | Beneficial owner | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| Panmao Shanghai[(4)] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| Shanghai Pannuo[(4)] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |

| Name | Capacity/nature of interest[1] | Number of Shares held as of the Latest Practicable Date | Approximate percentage of shareholding in the total issued share capital of our Company as of the Latest Practicable Date | Number of Shares held immediately following completion of the [REDACTED] | Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the [REDACTED] |
|---|---|---|---|---|---|
| CITIC Private Equity Funds Management Co., Ltd.[4] (中信產業投資基金管理有限公司) | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| CYH[5] | Beneficial owner | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| CYH Cosmetic Medical Investment Limited[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| CPEChina Fund II[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| CPEChina Fund IIA[5] | Interest in controlled corporation; interest jointly held with another person | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| Citron PE Associates II[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| Citron PE Funds II[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| Citron PE Holdings Limited[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| CLSA Global Investments Management Limited[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| CLSA, B.V.[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |

| Name | Capacity/nature of interest[1] | Number of Shares held as of the Latest Practicable Date | Approximate percentage of shareholding in the total issued share capital of our Company as of the Latest Practicable Date | Number of Shares held immediately following completion of the [REDACTED] | Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the [REDACTED] |
|---|---|---|---|---|---|
| CITIC Securities International Company Limited[5] | Interest in controlled corporation | 91,866,668 | 21.59% | [**REDACTED**] | [**REDACTED**] |
| CITIC Securities Company Limited (中信證券股份有限公司)[4][5] | Interest in controlled corporation | 183,733,336 | 43.18% | [**REDACTED**] | [**REDACTED**] |
| ZH Investment Capital Ltd[6] | Beneficial owner | 24,000,000 | 5.64 | [**REDACTED**] | [**REDACTED**] |
| ZH Ventures Ltd[6] | Interest in controlled corporation | 24,000,000 | 5.64 | [**REDACTED**] | [**REDACTED**] |
| ZHANG Hui [6] | Interest in controlled corporation | 24,000,000 | 5.64 | [**REDACTED**] | [**REDACTED**] |
| Frandor Limited[2][6][7] | Interest in controlled corporation | 185,531,916 | 43.6 | [**REDACTED**] | [**REDACTED**] |
| Trident Trust Company (Singapore) Pte Limited[2][6][7] | Trustee | 185,531,916 | 43.6 | [**REDACTED**] | [**REDACTED**] |

*Notes:*

1. All interests stated are long positions.

2. ZY Investment Capital Ltd is wholly-owned by ZY Ventures Ltd, which is in turn wholly-owned by Frandor Limited. Frandor Limited is a nominee shareholder holding shares of ZY Ventures Ltd on behalf of The ZY Trust and is wholly-owned by Trident Trust Company (Singapore) Pte Limited, which is the trustee of The ZY Trust established by Mr. Zhang (as the settlor) and Trident Trust Company (Singapore) Pte Limited (as the trustee) on March 25, 2021.

3. Yunuo Technology Holdings Limited (上海予諾科技控股有限公司) is wholly owned by Shanghai Yuxin Technology Partnership (Limited Partnership) (上海予信科技合夥企業(有限合夥)), the general partner of which is Shanghai Yuhe Technology Company Limited (上海予赫科技有限公司), which is in turn wholly-owned by Mr. Zhang. As such, Mr. Zhang is deemed to be interested in the 40,382,979 Shares held by ZY Investment Capital Ltd and the 5,000,000 Shares held by Yunuo Technology Holdings Limited under the SFO.

4. Yonghe Hair Service is wholly-owned by Panmao Shanghai, the general partner of which is Shanghai Pannuo, which is in turn wholly-owned by CITIC Private Equity Funds Management Co., Ltd. CITIC Private Equity Funds Management Co., Ltd is owned as to 35% by CITIC Securities Company Limited, a company listed on both the Stock Exchange and the Shanghai Stock Exchange.

5. CYH Cosmetic Medical Investment Limited is owned to approximately 86.3% by CPEChina Fund II and 13.7% by CPEChina Fund IIA. CPEChina Fund II and CPEChina Fund IIA can jointly control the exercise of the voting power held by CYH Cosmetic Medical Investment Limited. The general partner of CPEChina Fund II and CPEChina Fund IIA is Citron PE Associates II. Citron PE Associates II is an exempted limited partnership registered under the laws of the Cayman Islands whose general partner is Citron PE Funds II. Citron PE Funds II is wholly owned by Citron PE Holdings Limited, which is held as to 35% by CLSA Global Investments Management Limited. CLSA Global Investments Management Limited is wholly owned by CLSA, B.V., which is wholly owned by CITIC Securities International Company Limited, which in turn is wholly owned by CITIC Securities Company Limited.

6. ZH Investment Capital Ltd is wholly-owned by ZH Ventures Ltd, which is in turn wholly-owned by Frandor Limited. Frandor Limited is a nominee shareholder holding shares of ZH Ventures Ltd on behalf of The ZH Trust and is wholly-owned by Trident Trust Company (Singapore) Pte Limited, which is the trustee of The ZH Trust established by Mr. ZHANG Hui (as the settlor) and Trident Trust Company (Singapore) Pte Limited (as the trustee) on March 25, 2021. As such, Mr. ZHANG Hui is deemed to be interested in the 6,000,000 Shares held by ZH Investment Capital Ltd under the SFO.

7. Frandor Limited is a nominee shareholder holdings shares of ZY Ventures Ltd and ZH Ventures Ltd on behalf of The ZY Trust and The ZH Trust, respectively. It is wholly-owned by Trident Trust Company (Singapore) Pte Limited, the trustee of The ZY Trust and The ZH Trust. Accordingly, each of Frandor Limited and Trident Trust Company (Singapore) Pte Limited is deemed to be interested in the 46,382,979 Shares by virtue of the SFO.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), have any interest and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

## BOARD OF DIRECTORS

Our Board consists of seven Directors, of whom two are executive Directors, two are non-executive Directors and three are independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business. The table below sets out certain information in respect of the members of the Board.

| Name | Position | Age | Date of appointment as Director | Date of joining our Group | Role and responsibility | Relationship with other Directors and senior management |
|---|---|---|---|---|---|---|
| ZHANG Yu (張玉) | Chairman of the Board, Executive Director and chief executive officer | 35 | September 17, 2020 | July 2010 | Overall strategic planning, business direction, operational management and marketing | Elder brother of Mr. ZHANG Hui |
| ZHANG Hui (張輝) | Executive Director and procurement director | 34 | September 17, 2020 | May 2011 | Overall procurement management and business development | Younger brother of Mr. ZHANG |
| ZHAI Feng (翟鋒) | Non-executive Director | 53 | September 17, 2020 | July 2017 | Provide advice on strategic development | None |
| GENG Jiaqi (耿嘉琦) | Non-executive Director | 49 | September 17, 2020 | July 2017 | Provide advice on strategic development | None |
| WANG Jiping (王繼萍) | Independent non-executive Director | 60 | June 1, 2021 | June 2021 | Provide independent advice and judgment to our Board | None |
| CHAN Peng Kuan (陳炳鈞) | Independent non-executive Director | 57 | June 1, 2021 | June 2021 | Provide independent advice and judgment to our Board | None |
| LI Xiaopei (李小培) | Independent non-executive Director | 35 | June 1, 2021 | June 2021 | Provide independent advice and judgment to our Board | None |

## DIRECTORS

### Executive Directors

**Mr. ZHANG Yu (張玉) ("Mr. Zhang")**, aged 35, is our founder, executive Director, chairman of the Board and the chief executive officer. He was appointed as a Director on September 17, 2020 and re-designated as the an executive director on June 1, 2021. He founded the Group in July 2010 and has been the chief executive officer of the Group since July 2010. Mr. Zhang is in charge of the overall strategic planning, business direction and operational management of the Group.

Mr. Zhang has been dedicated to medical haircare service industry for over 16 years, and thus has a deep understanding of the needs of our customers from his years of frontline experience. Mr. Zhang ventured into the hair transplant sector in March 2005 when he joined Beijing Churong Fuyun Medical Beauty Clinic (北京楚蓉福運醫療美容診所) and resigned in November 2007. After that, he founded our Group and started his own hair transplant business with the brand name of Yonghe (雍禾) in 2010. Mr. Zhang is a pioneer in advocating and being relentlessly committed to the development of hair transplant service by introducing and subsequently upgrading the most advanced hair transplant solutions to Chinese patients. Mr. Zhang has led the formulation of our strategic development decisions, established and developed our medical profession team. As such, our Group has gained a significant first mover advantage and grown successfully in China. Leveraging his forward-looking industry vision, we have further expand our business lines to cover the diagnosis and treatment of various hair-related diseases, hair transplant, medical and routine hair care, wig research and production and various other hair-related product and service offerings. Under his leadership, we have developed a management style reflective of the values and characteristics of the "Yonghe" brand and obtained many prestigious accreditations and recognitions.

Mr. Zhang graduated from Sixian Dazhuang Middle School (泗縣大莊初級中學) in June 2001. Mr. Zhang is the deputy head of the hair medicine and scalp health management group of skin professional committee of the Chinese Non-government Medical Institutions Association (中國非公立醫療機構協會皮膚專業委員會毛髮醫學與頭皮健康管理學組) since September 2018.

**Mr. ZHANG Hui (張輝)**, aged 34, was appointed as a Director on September 17, 2020 and re-designated as the an executive Director on June 1, 2021. He has been the procurement director of the Group since May 2011. Mr. Zhang Hui is in charge of the overall procurement management and business development of the Group.

He accumulated over 10 years of experience in medical haircare service industry within our Group. Since joining our Group, Mr. Zhang Hui developed and optimized our Group's strategies and process relating to supply chain management and business development. His strong support towards high-quality and just-in-time management concept of the procurement process contributed to and been instrumental to the steady expansion of our Group. Mr. Zhang Hui has actively promoted our business development, and further fortified our leading position in this industry in China.

Mr. Zhang Hui graduated from Beijing Language and Culture University (北京語言大學網絡教育學院), the PRC, through long-distance education, with an associate degree in economic management in January 2019.

**Mr. ZHAI Feng (翟鋒)**, aged 53, was appointed as a Director on September 17, 2020 and re-designated as a non-executive Director on June 1, 2021. Mr. Zhai is responsible for providing advice

on strategic development of our Group. Mr. Zhai has been serving as managing director at Beijing Panmao Investment Management Co., Ltd. (北京磐茂投資管理有限公司) since January 2019, a company specializing in asset management, where he is primarily responsible for post-investment management and operation related matters of the invested companies.

Mr. Zhai has over 30 years of experience in investment and management industry. Mr. Zhai was a managing director at Shanghai Panxin Mezzanine Investment Management Company Limited (上海磐信夾層投資管理有限公司) from January 2013 to December 2018. From July 1991 to November 2012, Mr. Zhai worked at Procter & Gamble (China) Sales Co. Ltd. (寶潔(中國)有限公司) with his last position as a president of sales in Greater China. Mr. Zhai has served as director of Shaanxi Tourism Culture Industry Holding Co. Ltd. (陝西旅遊文化產業股份有限公司) ("**Shaanxi Tourism**") (stock code: 870432), and CIIC Guanaitong (Shanghai) Technology Co., Ltd. (中智關愛通(上海)科技股份有限公司) (stock code: 871282), both listed on the National Equities Exchange and Quotations Co., Ltd., since December 2015 and November 2016, respectively. From October 2014 to July 2019, he served as director of Weihai Guangwei Composites Co., Ltd. (威海光威複合材料股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 300699). From December 2017 to November 2019, he served as director of Beijing Hualian Department Store Co., Ltd (北京華聯商廈股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 000882).

Mr. Zhai obtained his bachelor's degree in environmental engineering from Tongji University (同濟大學), the PRC, in July 1991.

Mr. Zhai was a director of Shaanxi Tourism Cultural Industry Development Co. Ltd (陝西旅遊文化產業發展股份有限公司), a company established in the PRC which was deregistered on June 30, 2016 as a result of merger by absorption by Shaanxi Tourism. He was also a director of Horgos Chinatoporedit, a company established in the PRC and was deregistered on December 3, 2018. Mr. Zhai was a director of Panxin Rongtai (Shanghai) Asset Management Co., Ltd. (磐信鎔泰(上海)資產管理有限公司), a company established in the PRC and was deregistered on January 29, 2019. Mr. Zhai confirmed that each of the above companies was solvent prior to its deregistration and was deregistered as it had not commenced business since establishment or had ceased to conduct business. He further confirmed that, as of the Latest Practicable Date, no claims have been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of the deregistration of each of the above companies.

**Mr. GENG Jiaqi (耿嘉琦)**, aged 49, was appointed as a Director on September 17, 2020 and re-designated as a non-executive Director on June 1, 2021. Mr. Geng is responsible for provide advice on strategic development of the Group.

Mr. Geng has over 13 years of experience in investment and management industry. Mr. Geng has been an investment director of Beijing Panmao Investment Management Co., Ltd. (北京磐茂投資管理有限公司) since October 2020. Mr. Geng was an investment director of Tianjin Panmao Enterprise Management Limited Liability Partnership (天津磐茂企業管理合夥企業(有限合夥)) from January 2019 to September 2020. From May 2015 to December 2018, he was an investment director of Shanghai Panxin Equity Investment Management Limited (上海磐信股權投資管理有限公司). He was a director of Wangfujing Group Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 600859), from December 2016 to December 2019. Mr. Geng was a senior investment manager of Beijing Hony Future Investment Advisor Ltd. (北京弘毅遠方投資顧問有限公司) from September 2008 to March 2010.

Mr. Geng obtained his bachelor's degree in accounting & finance and business administration & management from Oxford Brookes University, the United Kingdom, in July 1996 and his master's degree in business administration from State University of New Jersey, the U.S., in January 2001.

**Independent Non-executive Directors**

**Ms. WANG Jiping (王繼萍)**, aged 60, was appointed as an independent non-executive Director on June 1, 2021 and is responsible for providing independent advice and judgment to our Board.

Ms. Wang has over 18 years of experience in hair transplant surgery industry. Ms. Wang was the head of Hair Transplant Center of the Fourth Medical Centre, Chinese PLA General Hospital (解放軍總醫院第四醫學中心) from February 2008 to December 2020. She worked in Plastic Surgery Hospital of Peking Union Medical College (北京協和醫學院整形外科醫院) from November 1997 to February 2008, and was subsequently promoted as the director of Hair Transplant Center from 2003 to 2008 and the director of Outpatient Department from 2003 to 2006.

Ms. Wang obtained her bachelor's degree in medicine from Shandong Medical College (山東醫學院) (now known as Shandong University School of Medicine (山東大學醫學院)) in August 1984. She was awarded the practice certificate for medical practitioners issued by the Ministry of Health of the PRC in May 1999. She was certified as a chief physician in plastic surgery by the Ministry of Health of the PRC in July 2007.

She was awarded the second prize of National Science and Technology Progress Award (國家科學技術進步獎) for "A series of technological innovations and applications for the repair of soft tissue damage and functional reconstruction in war trauma (burns) (戰創(燒)傷軟組織毀損修復與功能重建系列技術創新與應用)" issued by the State Council of the PRC.

**Mr. CHAN Peng Kuan (陳炳鈞)**, aged 57, was appointed as an independent non-executive Director on June 1, 2021 and is responsible for providing independent advice and judgment to our Board.

Mr. Chan has more than 20 years of experience in finance and banking. Mr. Chan has been the independent non-executive director of Yincheng International Holding Co., Ltd., a company listed on the Stock Exchange (stock code: 1902), since February 2019. He was the chief financial officer of Elegance Optical International Holdings Limited, a company listed on the Stock Exchange (stock code: 907), from October 2017 to April 2019. He served as the chief operating officer of CITIC Merchant Co., Limited (中信國通投資管理有限公司) from January 2012 to September 2017. Prior to that, Mr. Chan was the responsible officer at Piper Jaffray Asia Limited from February 2011 to November 2011. From March 2005 to January 2011, Mr. Chan also worked at BNP Paribas Capital (Asia Pacific) Limited with his last position as a managing director of Corporate Finance — Greater China Coverage department.

From August 2000 to December 2004, Mr. Chan served as an executive director of Sanyuan Group Limited (三元集團有限公司) ("**Sanyuan Group**"), a company delisted from the Stock Exchange in December 2009 (stock code: 0140).

Mr. Chan obtained his bachelor's degree in commerce from University of Canterbury in New Zealand in May 1989. He received his master's degree in applied finance from Macquarie University in Australia in November 1998. Mr. Chan has been a member of the Hong Kong Institute of Certified Public Accountants (previously known as Hong Kong Society of Accountants) since July 1993. He obtained his

professional qualification as a Chartered Accountant in October 1996 from the Institute of Chartered Accountants of Australia and New Zealand (previously known as Chartered Accountants of New Zealand).

Mr. Chan was a director of the following companies, which were involuntarily wound up:

| Name of Company | Place of incorporation | Principal business activity immediately before being voluntarily wound up or struck off | Voluntarily wound up or being struck off |
|---|---|---|---|
| Pacific Engineering Limited | Hong Kong | a company principally engaged in the trading of the sea sand | Involuntarily wound up on 11 May 2006 due to winding up order |
| Infinity Properties Limited | Hong Kong | a property holding company | Involuntarily wound up on 31 January 2007 due to winding up order |
| Propland Limited | Hong Kong | a property holding company | involuntarily wound up on 6 October 2006 due to winding up order |
| V & O Company Limited | Hong Kong | a property holding company | Involuntarily wound up on 6 October 2006 due to winding up order |

Mr. Chan was appointed on 31 August 2000 as a director of each of Pacific Engineering Limited, Infinity Properties Limited, Propland Limited and V&O Company Limited (collectively, the "**Relevant Companies**"), all of which were incorporated in Hong Kong and wholly-owned subsidiaries of Sanyuan Group.

There was no wrongful act on the part of Mr. Chan leading to the solvent winding up of the Relevant Companies.

Mr. Chan has confirmed that, (i) he was not involved in the daily operations of the Relevant Companies at any time; and (ii) during the course of the liquidation of the Relevant Companies, there was no allegation of fraud or other impropriety, judgment debt or disqualification order made against him.

**Mr. LI Xiaopei (李小培)**, aged 35, was appointed as an independent non-executive Director on June 1, 2021 and is responsible for providing independent advice and judgment to our Board.

Mr. Li has over 10 years of experience in organic and polymer chemistry industry. He is currently served as a technical adviser at Tianjin Changyuan Medical Technology Company Limited (天津長元醫藥科技有限公司) since June 2020. From April 2020 to March 2021, he was a research assistant of Institute for Chemical Research, Kyoto University. He worked in Beijing Boyalife Weiming Union Stem

Cell Technology Company Limited (北京博雅未名聯合幹細胞科技有限公司) from January 2014 to May 2014. From February 2011 to November 2011, he worked in WuXi AppTec (Tianjin) Co., Ltd. (天津藥明康得新藥開發有限公司).

Mr. Li received a bachelor degree in materials chemistry from Huaibei Normal University (淮北師範大學), the PRC, in June 2009 and a master degree in polymer chemistry from Kyoto University, Japan, in March 2018. He was awarded a scholarship from China Scholarship Council to attend Kyoto University and subsequently received a PhD degree in polymer chemistry from Kyoto University, Japan, in March 2021.

**Other Disclosure Pursuant to Rule 13.51(2) of the Listing Rules**

Save as disclosed above and in this document, each of our Directors confirms with respect to himself or herself that he or she (1) did not hold other long positions or short positions in the Shares, underlying Shares, debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) as of the Latest Practicable Date; (2) had no other relationship with any Directors, senior management or substantial shareholders of our Company as of the Latest Practicable Date; (3) did not hold any other 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 (4) there are no other matters concerning our Director's appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

## SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. Mr. Zhang and Mr. Zhang Hui are each a Director of our Group and also a member of our senior management team. See their biographies in the part headed "— Directors" above. The table below sets out certain information in respect of the senior management, in addition to our Directors, of the Group.

| Name | Position | Age | Date of appointment | Date of joining our Group | Role and responsibility | Relationship with other Directors and senior management |
|---|---|---|---|---|---|---|
| ZHANG Yu (張玉) | Chief executive officer | 35 | July 2010 | July 2010 | Overall strategic planning, business direction and operational management | Elder brother of Mr. ZHANG Hui |
| XU Yang (徐洋) | Operation director and assistant to the chief executive officer | 42 | September 2, 2019 | September 2019 | Responsible for daily operations and administrative matters of our Group | None |

| Name | Position | Age | Date of appointment | Date of joining our Group | Role and responsibility | Relationship with other Directors and senior management |
|---|---|---|---|---|---|---|
| HAN Zhimei (韓志梅) | Finance director | 44 | March 20, 2017 | March 2017 | Responsible for financing, accounting, budget control, internal control, financial management of the Group | None |
| ZHANG Hui (張輝) | Procurement director | 34 | May 2011 | May 2011 | Overall procurement management and business development of our Group | Younger brother of Mr. ZHANG |
| LI Xiaolong (李小龍) | General medical service director | 56 | June 28, 2020 | June 2020 | Responsible for medical quality control and procedure standardization of our Group | None |
| HUANG Donghong (黃東紅) | Marketing director | 35 | May 8, 2020 | May 2012 | Responsible for overall branding, sales and marketing management of our Group | None |

**Mr. XU Yang (徐洋)**, aged 42, has been the operation director and assistant to the chief executive officer since September 2, 2019. Mr. Xu is responsible for daily operations and administrative matters of our Group.

Mr. Xu has around 10 years of experience in management industry. Mr. Xu was a product manager of Baidu Online Network Technology (Beijing) Co., Ltd. (百度在線網絡技術(北京)有限公司) from June 2016 to March 2018. He was a president of a hospital owned by Beijing Evercare Medical Technology Group Co., Ltd. (北京伊美爾醫療科技集團股份公司) from November 2011 to December 2014.

Mr. Xu obtained his bachelor's degree in economic information management from Shandong institute of business and technology (山東工商學院) (formerly known as China Coal Economic Institute (中國煤炭經濟學院)) in July 2002 and his master's degree in business management from Nankai University (南開大學) in July 2009.

**Ms. HAN Zhimei (韓志梅)**, aged 44, has been the finance director since March 20, 2017 and is responsible for financing, accounting, budget control, internal control, financial management of the Group.

Ms. Han has over 23 years of experience in accounting and corporate finance. Prior to joining our Group, from March 2016 to March 2017, she served as the finance director of KR Space (Beijing) Information Technology Co., Ltd., (氪空間(北京)信息技術有限公司). From February 2014 to September 2015, Ms. Han served as general manager of finance center of CiMing Health Management Group Co., Ltd. (慈銘健康管理集團股份有限公司). From May 2012 to February 2014, she served as finance director in Beijing Yangguangwo Cultural Development Co., Ltd. (北京陽光喔文化發展有限公司). Ms. Han was the accounting director of finance center of CiMing Health Management Group Co., Ltd. (慈銘健康管理集團股份有限公司) from August 2011 to May 2012. She was the vice director of finance department of Beijing Tianyou Education Consulting Co., Ltd. (北京天有教育諮詢有限公司) from October 2008 to July 2011. Earlier, Ms. Han served as a finance manager of China Real Estate Development North America Investment Group Co., Ltd. (中房北美投資集團有限公司) (formerly known as China Real Estate Hongdu Investment Group Co., Ltd. (中房鴻都投資集團有限公司)) from July 1997 to April 2008.

Ms. Han obtained her bachelor degree in accounting from Beijing Institute of Light Industry (北京輕工業學院) (now known as Beijing Technology and Business University (北京工商大學)), the PRC, in July 1998. She obtained intermediate accounting professional and technical qualification certificate issued by the Ministry of Finance in September 2003.

**Mr. LI Xiaolong (李小龍)**, aged 56, has been the general medical service director since June 28, 2020. Mr. Li is responsible for medical quality control and procedure standardization of our Group.

Mr. Li has over 10 years of experience in medical service industry. From March 2015 to March 2018, he was the vice president of The People's Liberation Army No.309 Hospital (解放軍第309醫院). He served as a vice director of Health Administration of Management Assurance Department of The People's Liberation Army General Staff Apartment (解放軍總參謀部管理保障部衛生局) from March 2011 to June 2013.

Mr. Li obtained his bachelor's degree in clinical medicine from Army Medical University (陸軍軍醫大學) (formerly known as No. 3 Army Medical University (第三軍醫大學)) in July 1987 and his master's degree in business management from Tiangong University (天津工業大學) in January 2010. He also holds a master of business management degree jointly awarded by Concordia University in the U.S. and Guanghua School of Management, Pecking University in July 2009. He was awarded the practice certificate for medical practitioners issued by Health Administration of The People's Liberation Army General Staff Apartment (解放軍總參謀部衛生局) in May 2011. He was awarded a chief physician professional qualification issued by The People's Liberation Army General Staff Apartment (解放軍總參謀部) in December 2015.

**Mr. HUANG Donghong (黃東紅)**, aged 35, has been the marketing director since May 8, 2020. Mr. Huang is responsible for overall branding, sales and marketing management of our Group.

Mr. Huang has over 9 years of experience in sales and marketing industry. He has been with us since his graduation from Communication University of China in 2012. Mr. Huang has held various positions in the Group, including regional marketing manager.

Mr. Huang obtained his bachelor's degree in arts from Gannan Normal College (贛南師範學院) (now known as Gannan Normal University (贛南師範大學)), the PRC, in June 2009 and his master's degree in arts from Communication University of China (中國傳媒大學), the PRC, in June 2012.

## JOINT COMPANY SECRETARIES

**Ms. HAN Zhimei (韓志梅)**, aged 44, was appointed as a joint company secretary of our Company on June 1, 2021. Ms. Han is also a member of senior management of our Company. Please refer to "— Senior Management" in this section for her biographical details.

**Ms. Leung Ching Ching (梁晶晶)**, is a senior manager of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. She has over 15 years of experience in the corporate secretarial field. She is a Chartered Secretary and a fellow of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators). Ms. Leung received a bachelor degree of social science and a master degree of arts in professional accounting and information system.

Ms. Leung has been a joint company secretary of China Huirong Financial Holdings Limited (中國匯融金融控股有限公司), a company listed on the Stock Exchange with stock code 1290, since October 2013, a company secretary of C&D International Investment Group Limited (建發國際投資集團有限公司), a company listed on the Stock Exchange with stock code 1908, since November 2017, a company secretary of Fosun Tourism Group (復星旅遊文化集團), a company listed on the Stock Exchange with stock code 1992, since June 2019, a joint company secretary of Shanghai Henlius Biotech, Inc. (上海復宏漢霖生物技術股份有限公司), a company listed on the Stock Exchange with stock code 2696, since September 2019, and a company secretary of C&D Property Management Group Co., Ltd (建發物業管理集團有限公司), a company listed on the Stock Exchange with stock code 2156, since December 2020.

## COMPLIANCE ADVISER

We have appointed Somerley Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any announcements, circulars or financial reports required by regulatory authorities or applicable laws in Hong Kong;
- where a transaction, which might be a notifiable or connected transaction under Chapters 14 and 14A of the Listing Rules is contemplated, including share issues and share repurchases;
- where we propose to use the [**REDACTED**] of the [**REDACTED**] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and
- where the Stock Exchange makes an inquiry of us regarding unusual price movement and trading volume or other issues under Rule 13.10 of the Listing Rules.

The terms of the appointment shall commence on the [**REDACTED**] and end on the date which we distribute our annual report of our financial results for first full the financial year commencing after the [**REDACTED**] and such appointment may be subjected to extension by mutual agreement.

## BOARD COMMITTEES

We have established the following committees in our Board in accordance with the relevant PRC laws and regulation, the Articles and the Listing Rules: an audit committee, a remuneration and appraisal committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board.

### Audit Committee

Our Company has established an audit committee (effective from the [**REDACTED**]) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 and paragraph D.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"). The audit committee consists of two independent non-executive Directors being Mr. Chan, Mr. Li and one non-executive Directors being Mr. Geng. The chairman of the audit committee is Mr. Chan. Mr. Chan holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the audit committee include, but are not limited to, the following:

- monitoring and evaluating the work of the external auditor;
- supervising the implementation of our internal audit system;
- reviewing and commenting on our financial reports and related disclosures; and
- other duties conferred by the Board.

### Remuneration and Appraisal Committee

Our Company has established a remuneration and appraisal committee (effective from the [**REDACTED**]) with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code. The remuneration and appraisal committee consists of two independent non-executive Directors being Mr. Chan and Mr. Li, and one Director being Mr. Zhang. The remuneration and appraisal committee is chaired by Mr. Chan. The primary duties of the remuneration and appraisal committee include, but are not limited to, the following:

- making recommendations to our Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- determining the specific remuneration packages of all Directors and senior management;
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Board from time to time;
- reviewing and managing the share incentive scheme(s) of our Company, including determining the scope of the eligible participants and conditions of a grant and auditing the exercise conditions; and
- other duties conferred by the Board.

### Nomination Committee

Our Company has established a nomination committee (effective from the [**REDACTED**]) with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The nomination committee consists of two independent non-executive Directors being Mr. Chan and Ms. Wang, and one Director being Mr. Zhang. The chairman of the Nomination Committee is Mr. Zhang. The primary functions of the nomination committee include, but are not limited to, the following:

- reviewing the structure, size and composition of our Board;
- assessing the independence of independent non-executive Directors;
- making recommendations to our Board on matters relating to the appointment of Directors; and
- other duties conferred by the Board.

## CORPORATE GOVERNANCE

Mr. ZHANG is our chairman of the Board and chief executive officer. With extensive experience in the hair health industry and having served in our Company since its establishment, Mr. Zhang is in charge of the overall strategic planning, business direction and operational management of our Group. Our Board considers that vesting the roles of the chairman of the Board and the chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of our Board, which comprises experienced and diverse individuals. Our Board currently comprises two executive Directors (including Mr. Zhang), two non-executive Directors and three independent non-executive Directors, and therefore has a strong independent element in its composition.

Save as disclosed above, our Company intends to comply with all code provisions under the Corporate Governance Code after the [**REDACTED**].

### Board Diversity

In order to enhance the effectiveness of the Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out our objectives and approach to achieve and maintain diversity of the Board. Pursuant to this policy, we seek to achieve board diversity through the consideration of a number of factors when selecting the candidates to the Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural and education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

The Board comprises seven members, including two executive Directors, two non-executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of gender, knowledge, skills, perspectives and experience, including management, organic and polymer chemistry, hair transplant surgery, business development, finance, investment and banking. They obtained professional and academic qualifications including medicine, business administration, accounting & finance, clinical medicine and commerce. Furthermore, the Board possesses members spanning a wide range of ages, from 34 years old to 60 years old. Taking into account our existing business model and

specific needs as well as the different background of our Directors, the composition of the Board satisfies our board diversity policy, and the Board and the nomination committee of our Company will assess the Board composition regularly.

Our nomination committee is responsible for reviewing the diversity of the Board. After [**REDACTED**], our nomination committee will continue to monitor and evaluate the implementation of the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy, including any measurable objectives set for implementing the board diversity policy and the progress on achieving these objectives on an annual basis. We will also continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels.

## COMPENSATION OF DIRECTORS AND MANAGEMENT

Our Directors receive compensation in the form of fees, salaries, discretion bonuses, other allowances and benefits in kind. We determine the salaries of our independent non-executive Directors based on each their responsibilities, qualification, position and seniority.

The aggregate amount of remuneration to our Directors for the three years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021 were approximately RMB1.1 million, RMB1.8 million, RMB5.7 million and RMB1.0 million, respectively.

It is estimated that remuneration and benefits in kind (excluding any possible payment of discretionary bonus) equivalent to approximately RMB2.2 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2021 under arrangements in force at the date of this document.

The aggregate amount of remuneration to our five highest paid individuals (including both employees and Directors) for the three years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021 were approximately RMB2.8 million, RMB7.0 million, RMB11.5 million and RMB2.8 million, respectively.

During the Track Record Period, (i) no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining our Group; (ii) no compensation was paid to, or receivable by, our Directors, past Directors or the five highest paid individuals for the loss of office as 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; and (iii) none of our Directors waived any emoluments.

For details of our share incentives, please refer to the section headed "History, Development and Corporate Structure" and Note 23 "Share-Based Compensation" of the Accountant's Report set out in Appendix I to this document.

## FUTURE PLANS

See "Business — Our Strategies" for a detailed description of our future plans.

## USE OF [REDACTED]

We estimate that we will receive net [**REDACTED**] from the [**REDACTED**] of approximately HK$[**REDACTED**] million, after deducting [**REDACTED**] commissions, fees and estimated expenses payable by us in connection with the [**REDACTED**], and assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range stated in this Document. If the [**REDACTED**] is set at HK$[**REDACTED**] per Share, being the high end of the indicative [**REDACTED**] range, the net [**REDACTED**] from the [**REDACTED**] will increase by approximately HK$[**REDACTED**] million. If the [**REDACTED**] is set at HK$[**REDACTED**] per Share, being the low end of the indicative [**REDACTED**] range, the net [**REDACTED**] from the [**REDACTED**] will decrease by approximately HK$[**REDACTED**] million. We intend to use the net [**REDACTED**] of the [**REDACTED**] for the following purposes:

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to expand and upgrade existing hair transplant clinics in our network in China. In particular, we intend to allocate the net [**REDACTED**] in the amounts as set forth below:

  (i) approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to fund part of our expansion plan in China within the next few years, including (a) establishing approximately 50 new hair transplant clinics primarily in China's tier-two and lower-tier cities as we believe that the growing demands in these cities will drive the next wave of growth of the country's hair transplant industry; and (b) establishing approximately 60 stand-alone *Svenson Medical Hair Care Centers* in addition to those opened in our hair transplant clinics under a "shop-in-shop" model. We plan to obtain a Medical Institution Practicing License for each of these stand-alone *Svenson Medical Hair Care Centers*. The number of new medical hair care centers to be opened exceeds that of new hair transplant clinics, primarily because we currently plan to open only one hair transplant clinic in one city, while depending on the relevant medical demands of patients in a city, we may open multiple medical hair care centers in one city to give patients convenient access to our services. In addition, we plan to speed up our expansion in medical hair care sector as we believe that China's medical hair care service market will harbor huge growth potential in the next few years and such expansion will gain us significant first mover advantages. We expect to incur a total capital expenditure of approximately RMB510.0 million for the establishment of the aforesaid new clinics and medical hair care centers, and to fund the part that exceeds the allocated net [**REDACTED**] with our internal capital resources;

  (ii) approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to fund the building of six comprehensive medical hair care service hospitals in China. We plan to set up multiple hair-related specialty departments in such hospitals in addition to the hair transplant department, and our service offerings in such hospitals will be further expanded to the diagnosis and treatment of various hair-related diseases. We are currently building four comprehensive medical hair care service hospitals,

including two hospitals to be newly established in Beijing and Shanghai, and two hospitals to be transformed from existing clinics in Guangzhou and Shenzhen. We plan to build two more comprehensive medical hair care service hospitals in provincial capitals in China in the next few years, and are currently in the process of selecting the target cities.

See "Business — Our Clinic Network — Expansion and Acquisitions — Expansion" for details.

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to fund our innovations in product and service offerings. In particular, we intend to allocate the net [**REDACTED**] in the amounts as set forth below:

  (i) approximately [**REDACTED**]%, or HK[**REDACTED**] million to research and develop surgical instruments and medical hair care services products. For example, to enhance patient comfort as well as the safety and transparency of our treatment, we are developing various instruments and devices with smart features such as smart treatment couch, intelligent shadowless lamp and intelligent follicle segregation table. Such instruments and devices, as compared to the conventional ones we currently use, are expected to have smart functions such as automatic position adaptation, automatic light adjustment, and intelligent calculation of follicle number. We are also developing several ancillary products such as wigs of various types and functional pillows that are specially designed to enhance patient experience at the recovery stage;

  (ii) approximately [**REDACTED**]%, or HK$[**REDACTED**] million to expand research and development ("**R&D**") team. We expect to recruit qualified R&D personnel to drive the continuous development of our products and services, including the promotion and adoption of new technologies in our business.

The following table sets forth the details of our recruitment plan based on our current estimation, which is subject to changes according to our actual needs and market conditions at the relevant time.

| Research Area | Positions | Expected Number of New Hires | | | Expected Average Annual Compensation (RMB) | Primary qualifications |
|---|---|---|---|---|---|---|
| | | 2021 | 2022 | 2023 | | |
| Medical device product development | Researchers and engineers | 4 | 3 | 2 | 200,000 to 1,500,000 | • a bachelor's degree or above in the relevant major<br>• five to seven years of experience in the relevant industry<br>• proficiency in medical device development or design, manufacturing techniques of medical devices, the course of device processing craft, etc. |
| Intelligent software development | Researchers and engineers | 8 | 3 | 2 | 200,000 to 1,500,000 | • a bachelor's degree or above in the relevant major<br>• five to seven years of experience in the relevant industry<br>• proficiency in software development, database design and development, AI, etc. |
| Hair care product development | Scientific researchers and medical professionals | 8 | 10 | 2 | 200,000 to 1,500,000 | • a bachelor's degree or above in the relevant major<br>• two to three years of experience in the relevant industry<br>• familiar with hair-related medical services and capable of conducing scientific researches |
| Software development in medical field | Scientific researchers and medical professionals | 10 | 7 | 3 | 200,000 to 1,500,000 | • a bachelor's degree or above in the relevant major<br>• two to five years of experience in the relevant industry<br>• mastering basic skills including software development, AI, etc. |

(iii) approximately [**REDACTED**]%, or HK$[**REDACTED**] million to upgrade our medical service. We plan to further optimize our hair transplant procedures to address the personalized and aesthetic treatment demands of our patients. We also plan to provide personal and customized postoperative services to our patients.

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used for investment in research and development to upgrade our service system with cutting-edge technology.

We expect to incur significantly higher expenses on research and development initiatives in the next few years than we did during the Track Record Period, primarily because (i) we are in the process of transforming our hair transplant clinics into comprehensive medical hair care service hospitals, which requires a substantial update of our current business systems (such as the accounting system, online service system and data management system) for the management of a more complicated business model; and (ii) we aim to expand our clinic network to at least double our current size within the next few years (including establishing approximately 50 new hair transplant clinics and 60 stand-alone medical hair care centers), which requires the establishment of a robust information technology infrastructure to support an effective and efficient control of our growing business. In particular, we intend to allocate the net [**REDACTED**] in the amounts as set forth below:

(i) approximately [**REDACTED**]%, or HK$[**REDACTED**] million to invest in technology infrastructure and software capabilities to upgrade our service system and build online hospital services. We have launched a set of intelligent consultation service software for graphic, telephonic, and video consultation services. With our clinic network expansion and transformation of clinics to hospitals as planned, our current system would no longer be able to satisfy the growing and ever-evolving demands of patients. We plan to cooperate with top information technology companies in China to develop and upgrade the business system for all institutions in our network.

(ii) approximately [**REDACTED**]%, or HK$[**REDACTED**] million to fund more data usage and analyses. We plan to engage professionals to further improve the real-time collection of more medical data at each clinic or hospital in our network for greater transparency of our diagnosis and treatment services. We also plan to put patient service data (after duly desensitization, if needed) to use to guide and inform the development of our hair disease diagnosis and treatment system; and

(iii) approximately [**REDACTED**]%, or HK$[**REDACTED**] million to build intelligent hospitals, develop, procure and upgrade hardware equipment. We plan to introduce or develop in-house high-tech intelligent equipment or instruments, such as automated follicle detectors and robotic manipulators for follicle transplant, to improve the accuracy of hair diagnosis and hair transplant procedures, while reducing the reliance on manual labor.

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to integrate industry resources to raise brand awareness in China. In particular, we intend to allocate the net [**REDACTED**] in the amounts as set forth below:

  (i) approximately [**REDACTED**]%, or HK$[**REDACTED**] million to acquire independent local hair transplant clinics to expedite the concentrated multi-location expansion in key regions. We will focus on major economically developed regions in China with high population density, such as South China and East China, to accelerate our rise to the top in those regions. We will consider a variety of factors when selecting acquisition targets. We will only consider the targets that (i) have a good compliance track record without any material breach of all applicable laws and regulations since their establishments; (ii) have a relatively clear and simple

shareholding structure and do not involve in any material litigation or arbitration proceedings; and (iii) hold all necessary permits, licenses and approvals for operating their businesses. In addition, we also consider (i) the targets' location, for example, whether they are situated in the cities in line with our regional concentration strategy and are located where traffic is convenient; (ii) the targets' past performance, for which we will evaluate various operating indicators such as number of patient visits, average spending per patient, client feedback and complaint rate; and (iii) the targets' medial serving capabilities, which are primarily demonstrated by the targets' scale of medical staff, number of surgery rooms and their related utilization rate. As confirmed by Frost & Sullivan, in 2020, independent local hair transplant institutions and other regional hair transplant chain institutions accounted for over 45% of the market share of China's hair transplant service market, and there are over 100 suitable acquisition targets available in the market. We may acquire the targets that satisfy our acquisition criteria from related parties, and we will strictly comply with all the requirements under the Listing Rules and seek for independent Shareholders' approval for such acquisition as appropriate. We currently plan to acquire five local hair transplant clinics that satisfy the aforesaid criteria within the next three years, and may adjust our acquisition plans based on our business needs and market conditions. As of the Latest Practicable Date, we had no specific acquisition plans nor had identified any specific targets. See "Business — Our Clinic Network — Expansion and Acquisitions — Acquisitions" for details;

(ii) approximately [**REDACTED**]%, or HK$[**REDACTED**] million to fund various forms of brand marketing, such as academic exchanges and collaborations. Going forward, we will continue to cooperate with experts from Class IIIA hospitals and renowned academic institutions through various forms such as inviting experts to conduct trainings for our physicians regularly and actively participating in or sponsoring industry conferences to promote communications and enhance our brand recognition.

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used to settle the outstanding balance of the acquisition considerations payable by us to Xinsiyu, a related party, for our acquisition of Nu/Hart Hair in May 2021. The total consideration for the acquisition is RMB30.0 million. As of June 30, 2021, the outstanding balance amounted to approximately RMB25.9 million, which shall be paid before the end of 2022 according to the sale and purchase agreement. See "Financial Information — Our Clinic Network — Expansion and Acquisitions — Acquisitions" for details.

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used for our working capital and general corporate purposes.

The above allocation of the net [**REDACTED**] from the [**REDACTED**] will be adjusted on a *pro rata* basis in the event that the [**REDACTED**] is fixed at a higher or lower level compared to the mid-point of the indicative [**REDACTED**] range stated in this Document.

To the extent that the net [**REDACTED**] are not immediately applied to the above purposes, we intend to deposit the net [**REDACTED**] into short-term demand deposits with licensed banks or financial institutions so long as it is deemed to be in the best interests of our Company.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

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[REDACTED]

*The following is the text of a report set out on pages [I-1] to [I-3], received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

***[Letterhead of PricewaterhouseCoopers]***

***[DRAFT]***

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YONGHE MEDICAL GROUP CO., LTD. AND MORGAN STANLEY ASIA LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED**

**Introduction**

We report on the historical financial information of Yonghe Medical Group Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages [I-4] to [I-70], which comprises the consolidated balance sheets as at December 31, 2018, 2019 and 2020 and June 30, 2021, the balance sheets of the Company as at December 31, 2020 and June 30, 2021 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 (the "Track Record Period") 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-70] forms an integral part of this report, which has been prepared for inclusion in the [**REDACTED**] of the Company dated [date], 2021 (the "[**REDACTED**]") in connection with the initial [**REDACTED**] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountant's 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 accountant's 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 accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information 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 accountant's report, a true and fair view of the financial position of the Company as at December 31, 2020 and June 30, 2021 and the consolidated financial position of the Group as at December 31, 2018, 2019 and 2020 and June 30, 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**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 comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2020 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set forth in Notes 1.3 and 2.1 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 Hong Kong 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 the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set forth in Notes 1.3 and 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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-4 have been made.

***Dividends***

We refer to Note 34 to the Historical Financial Information which state that no dividends have been paid by Yonghe Medical Group Co., Ltd. in respect of the Track Record Period.

***No statutory financial statements for the Company***

No statutory financial statements have been prepared for the Company since its date of incorporation.

**PricewaterhouseCoopers**
Certified Public Accountants
Hong Kong
[date], 2021

## I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

### Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 (the "Track Record Period"), on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by 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.

### Consolidated Statements of Comprehensive Income

| | | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | *Notes* | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Revenue from contracts with customers | *6* | 934,326 | 1,224,477 | 1,638,297 | 601,563 | 1,053,400 |
| Cost of sales and services | *9* | (232,207) | (335,379) | (416,667) | (166,012) | (277,983) |
| **Gross profit** | | 702,119 | 889,098 | 1,221,630 | 435,551 | 775,417 |
| Selling and marketing expenses | *9* | (463,681) | (650,262) | (779,611) | (246,631) | (577,947) |
| General and administrative expenses | *9* | (93,952) | (129,962) | (162,022) | (69,443) | (91,142) |
| Research and development expenses | *9* | (7,807) | (8,869) | (11,815) | (5,456) | (6,151) |
| Net impairment losses on financial assets | *3.1(c)* | (1,633) | (34) | (487) | (279) | (376) |
| Other income | *7* | 933 | 1,443 | 6,304 | 1,354 | 2,133 |
| Other gains and losses, net | *8* | (7,021) | (3,373) | (7,738) | (5,766) | 7,211 |
| **Operating profit** | | 128,958 | 98,041 | 266,261 | 109,330 | 109,145 |
| Finance income | *11* | 139 | 210 | 941 | 218 | 2,408 |
| Finance costs | *11* | (17,808) | (26,728) | (36,288) | (16,007) | (22,678) |
| Finance costs – net | *11* | (17,669) | (26,518) | (35,347) | (15,789) | (20,270) |
| **Profit before income tax** | | 111,289 | 71,523 | 230,914 | 93,541 | 88,875 |
| Income tax expense | *12* | (57,789) | (35,899) | (67,582) | (28,082) | (48,434) |
| **Profit for the year/period** | | 53,500 | 35,624 | 163,332 | 65,459 | 40,441 |

| | Notes | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| **Other comprehensive income** | | | | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | | | | |
| Currency translation differences | | – | – | – | – | 710 |
| *Items that will not be reclassified to profit or loss* | | | | | | |
| Currency translation differences | | – | – | – | – | (1,657) |
| **Total comprehensive income for the year/period** | | 53,500 | 35,624 | 163,332 | 65,459 | 39,494 |
| **Profit and total comprehensive income for the year/period attributable to owners of the Company** | | 53,500 | 35,624 | 163,332 | 65,459 | 39,494 |
| **Earnings per share attributable to owners of the Company** | | | | | | |
| Basic earnings per share (RMB) | *13* | 0.13 | 0.09 | 0.39 | 0.16 | 0.10 |
| Diluted earnings per share (RMB) | *13* | 0.13 | 0.09 | 0.39 | 0.16 | 0.10 |

**Consolidated Balance Sheets**

| | Notes | As at December 31, 2018 | 2019 | 2020 | As at June 30, 2021 |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *14* | 168,158 | 231,136 | 309,437 | 380,720 |
| Right-of-use assets | *15* | 398,862 | 494,985 | 810,653 | 761,324 |
| Intangible assets | *16* | 1,398 | 3,307 | 3,547 | 34,148 |
| Deferred income tax assets | *27* | 12,517 | 20,853 | 29,012 | 32,735 |
| Prepayments, deposits and other receivables | *19* | 863 | 2,499 | 4,095 | 2,216 |
| Total non-current assets | | 581,798 | 752,780 | 1,156,744 | 1,211,143 |
| **Current assets** | | | | | |
| Inventories | *20* | 14,255 | 14,486 | 26,996 | 44,496 |
| Trade receivables | *18* | 9,805 | 5,859 | 10,330 | 6,929 |
| Prepayments, deposits and other receivables | *19* | 60,111 | 68,299 | 107,430 | 131,626 |
| Restricted cash | *24(b)* | – | – | – | 149,500 |
| Cash and cash equivalents | *21* | 68,476 | 89,789 | 292,856 | 453,100 |
| Total current assets | | 152,647 | 178,433 | 437,612 | 785,651 |
| **Total assets** | | 734,445 | 931,213 | 1,594,356 | 1,996,794 |
| **Equity** | | | | | |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | *22* | – | – | – | 7 |
| Other reserves | *22* | 150,365 | 150,365 | 153,971 | 241,798 |
| Retained earnings | | 53,131 | 88,755 | 252,087 | 292,528 |
| **Total equity** | | 203,496 | 239,120 | 406,058 | 534,333 |

| | Notes | As at December 31, 2018 | 2019 | 2020 | As at June 30, 2021 |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Lease liabilities | *15* | 324,932 | 411,172 | 682,879 | 644,381 |
| Deferred income tax liabilities | *27* | 794 | 193 | 219 | 964 |
| Total non-current liabilities | | 325,726 | 411,365 | 683,098 | 645,345 |
| **Current liabilities** | | | | | |
| Borrowings | *24* | – | 44,827 | 25,870 | 214,395 |
| Trade and other payables | *25* | 62,469 | 77,098 | 138,232 | 212,006 |
| Contract liabilities | *26* | 16,892 | 23,354 | 120,423 | 181,792 |
| Current income tax liabilities | | 50,481 | 38,581 | 73,624 | 50,944 |
| Lease liabilities | *15* | 75,381 | 96,868 | 147,051 | 157,979 |
| Total current liabilities | | 205,223 | 280,728 | 505,200 | 817,116 |
| **Total liabilities** | | 530,949 | 692,093 | 1,188,298 | 1,462,461 |
| **Total equity and liabilities** | | 734,445 | 931,213 | 1,594,356 | 1,996,794 |

**Balance Sheets of the Company**

| | *Notes* | As at December 31, 2020 | As at June 30, 2021 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | *1.2(i)(g)* | – | 265,039 |
| Total non-current assets | | – | 265,039 |
| **Current assets** | | | |
| Amount due from subsidiaries | | – | 113,004 |
| Cash and cash equivalents | *21* | – | 92,355 |
| Total current assets | | – | 205,359 |
| **Total assets** | | – | 470,398 |
| **Equity** | | | |
| Share capital | *22(i)* | – | 7 |
| Other reserves | | – | 352,282 |
| Accumulated losses | | – | (2,113) |
| **Total equity** | | – | 350,176 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Total non-current liabilities | | – | – |
| **Current liabilities** | | | |
| Borrowing | *24* | – | 120,222 |
| Total current liabilities | | – | 120,222 |
| **Total liabilities** | | – | 120,222 |
| **Total equity and liabilities** | | – | 470,398 |

**Consolidated Statements of Changes in Equity**

| | | Attributable to owners of the Company | | | |
|---|---|---|---|---|---|
| | *Notes* | **Share capital** | **Other reserves** | **Retained earnings** | **Total equity** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at January 1, 2018** | | – | 150,365 | (369) | 149,996 |
| Profit for the year | | – | – | 53,500 | 53,500 |
| **Total comprehensive income** | | – | – | 53,500 | 53,500 |
| **Balance at December 31, 2018** | | – | 150,365 | 53,131 | 203,496 |
| **Balance at January 1, 2019** | | – | 150,365 | 53,131 | 203,496 |
| Profit for the year | | – | – | 35,624 | 35,624 |
| **Total comprehensive income** | | – | – | 35,624 | 35,624 |
| **Balance at December 31, 2019** | | – | 150,365 | 88,755 | 239,120 |
| **Balance at January 1, 2020** | | – | 150,365 | 88,755 | 239,120 |
| Profit for the year | | – | – | 163,332 | 163,332 |
| **Total comprehensive income** | | – | – | 163,332 | 163,332 |
| **Transaction with owners** | | | | | |
| – Share-based compensation | *23* | – | 3,606 | – | 3,606 |
| **Balance at December 31, 2020** | | – | 153,971 | 252,087 | 406,058 |

| | | Attributable to owners of the Company | | | |
|---|---|---|---|---|---|
| | *Notes* | **Share capital** | **Other reserves** | **Retained earnings** | **Total equity** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at January 1, 2020** | | – | 150,365 | 88,755 | 239,120 |
| Profit for the period | | – | – | 65,149 | 65,149 |
| **Total comprehensive income** | | – | – | 65,149 | 65,149 |
| **Transaction with owners** | | | | | |
| – Share-based compensation | *23* | – | 3,513 | – | 3,513 |
| **Balance at June 30, 2020 (Unaudited)** | | – | 153,878 | 153,904 | 307,782 |
| **Balance at January 1, 2021** | | – | 153,971 | 252,087 | 406,058 |
| Profit for the period | | – | – | 40,441 | 40,441 |
| Currency translation differences | | – | (947) | – | (947) |
| **Total comprehensive income** | | – | (947) | 40,441 | 39,494 |
| **Transaction with owners** | | | | | |
| – Issue of shares | *22* | 7 | (7) | – | – |
| – Issue of shares to ZY Investment Capital Ltd. | *22* | – | 88,689 | – | 88,689 |
| – Share-based compensation | *23* | – | 92 | – | 92 |
| **Balance at June 30, 2021** | | 7 | 241,798 | 292,528 | 534,333 |

## Consolidated Statements of Cash Flows

| | | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | *Notes* | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| **Cash flows from operating activities** | | | | | | |
| Cash generated from operations | *28(a)* | 212,830 | 239,006 | 541,303 | 213,819 | 290,650 |
| Interest received | | 139 | 210 | 941 | 218 | 2,408 |
| Income tax paid | | (18,402) | (56,736) | (40,673) | (40,146) | (74,744) |
| **Net cash from operating activities** | | 194,567 | 182,480 | 501,571 | 173,891 | 218,314 |
| **Cash flows from investing activities** | | | | | | |
| Payments for property, plant and equipment | | (135,424) | (105,808) | (142,204) | (44,907) | (92,462) |
| Payments for intangible assets | | (1,270) | (2,300) | (643) | (18) | (992) |
| Proceeds from disposals of property, plant and equipment | | 305 | 6 | 178 | 123 | 82 |
| Proceeds from disposals of subsidiaries | | 3,267 | 2,750 | 150 | – | – |
| Payment for acquisition of a subsidiary, net of cash acquired | *30(b)* | – | – | – | – | (3,802) |
| Purchase of financial assets at fair value through profit or loss | | – | – | (31,100) | – | – |
| Disposal of financial assets at fair value through profit or loss | | 30,333 | – | 31,231 | – | – |
| **Net cash used in investing activities** | | (102,789) | (105,352) | (142,388) | (44,802) | (97,174) |

| | Notes | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from borrowings | | – | 44,827 | 28,870 | 25,370 | 232,685 |
| Repayment of borrowings | | – | – | (47,827) | (44,114) | (45,870) |
| Interest paid | | – | (1,275) | (1,488) | (1,025) | (1,150) |
| Payment of lease liabilities | | (69,689) | (99,367) | (132,289) | (64,108) | (77,554) |
| Payments of [**REDACTED**] expenses | | – | – | (3,382) | – | (8,959) |
| Restricted cash as guarantee for borrowings | | – | – | – | – | (149,500) |
| Capital contribution from ZY Investment Capital Ltd. | | – | – | – | – | 88,689 |
| Capital contribution from shareholders in Reorganization *(Note 1.2(i)(g))* | | – | – | – | – | 74,052 |
| Payment for consideration for shares transfer of Beijing Haiyouyou in Reorganization *(Note 1.2(i)(g))* | | – | – | – | – | (74,052) |
| **Net cash (used in)/from financing activities** | | (69,689) | (55,815) | (156,116) | (83,877) | 38,341 |
| **Net increase in cash and cash equivalents** | | 22,089 | 21,313 | 203,067 | 45,212 | 159,481 |
| Cash and cash equivalents at beginning of the year/period | | 46,387 | 68,476 | 89,789 | 89,789 | 292,856 |
| Exchange gains on cash and cash equivalents | | – | – | – | – | 763 |
| **Cash and cash equivalents at end of the year/period** | | 68,476 | 89,789 | 292,856 | 135,001 | 453,100 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

#### 1.1 General information

Yonghe Medical Group Co., Ltd. (the "Company") was incorporated in the Cayman Islands on September 17, 2020 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company is P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are primarily engaged in the provision of (i) Hair transplant and (ii) Medical hair care services in the People's Republic of China (the "PRC") (the "[**REDACTED**] Business").

This Historical Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

#### 1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation as described below (the "Reorganisation"), the [**REDACTED**] Business was primarily carried out by companies now comprising the Group, including Beijing Haiyouyou Technology Company Limited ("Beijing Haiyouyou"), and its subsidiaries (collectively, the "operating companies") in the PRC during the whole Track Record Period.

In preparation for the initial [**REDACTED**] of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Reorganisation was undertaken to transfer the [**REDACTED**] Business to the Company principally through the following steps:

*(i) Incorporation of overseas companies*

(a) On September 17, 2020, the Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability; The initial authorised share capital of the Company was US$50,000 divided into 5,000,000,000 shares with a par value of US$0.00001 each. Upon incorporation, one share with par value US$0.00001 was allotted and issued to Sertus Nominees (Cayman) Limited, and was subsequently transferred to ZhangYu Hair Service Holdings Limited, a special purpose vehicle incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Zhang Yu.

On September 17, 2020, Mr. Zhang Yu and Mr. Zhang Hui, the shareholders of Beijing Xunyi Technology Development Company Limited ("Beijing Xunyi") and Mr. Nie Lei, Mr. Geng Jiaqi, Ms. Duan Siqi, Mr. Tan Xu and Mr. Song Linfeng, the partners of Tianjin Yonghe Yuhui Enterprise Management Partnership (Limited Partnership) ("Yonghe Yuhui"), who are individual persons, through their respective special purpose vehicles incorporated in the BVI subscribed shares in the Company in proportion to their ultimate shareholdings in Beijing Haiyouyou respectively. On January 29, 2021, Panmao Shanghai through Yonghe Hair Service Holdings Limited, its special purpose vehicle incorporated in BVI, CYH and Hu & Yan Healthcare Investment Limited (the "Hu & Yan") subscribed shares in the Company in proportion to their shareholdings in Beijing Haiyouyou respectively.

(b) Yonghe Management Consulting Co., Ltd. ("Yonghe BVI") was incorporated in the BVI on September 25, 2020 by the Company;

(c) Yonghe Medical Holdings Limited ("Yonghe HK") was incorporated in Hong Kong on October 9, 2020 with limited liability by Yonghe BVI.

(d) In order to incentivize Mr. Zhang Yu (the "founder") and key employees, the then Shareholders (other than Mr. Zhang Yu and Mr. Zhang Hui) agreed to transfer 5% and 3% of the then issued shares to Mr. Zhang Yu and the employee incentive platform, Zhirui Technology Holdings Limited. On April 23, 2021, the then Shareholders (other than Mr. Zhang Yu and Mr. Zhang Hui) of the Company (the "Transferors") transferred in total 5,000,000 and 3,000,000 shares (representing 5% and 3% of the issued shares in the Company, respectively) to Yunuo Technology Holdings Limited and Zhirui Technology Holdings Limited, at a consideration of RMB69,427,083 and RMB41,656,250, respectively. The shares transferred was in proportion to the Transferors' respective shareholding in the Company.

Yunuo Technology Holdings Limited is incorporated in the BVI on January 15, 2021 and is wholly owned by Mr. Zhang Yu. Zhirui Technology Holdings Limited is the employee incentive platform. For detailed information of the Transferors, see Note 23.

(e) On March 25, 2021, Mr. Zhang Yu and Mr. Zhang Hui established their respective family trust and transferred their equity interests in the Company held through ZhangYu Hair Service Holdings Limited and ZhangHui Hair Service Holdings Limited to their respective family trusts.

(f) To further incentivise the founder, on April 26, 2021, the Company issued 6,382,979 shares to ZY Investment Capital Ltd., representing approximately 6.0% of the shares of the Company in issue upon completion of the share issuance at a consideration of RMB89 million.

(g) On May 10, 2021, Beijing Xunyi, Panmao Shanghai, CYH, Hu & Yan and Yonghe Yuhui, being the then shareholders of Beijing Haiyouyou, entered into a share transfer agreement with Yonghe HK, the Hong Kong subsidiary, pursuant to which Yonghe HK acquired the entire equity interests in Beijing Haiyouyou from each of Beijing Xunyi, Panmao Shanghai and Yonghe Yuhui through cash payment, CYH and Hu & Yan through share exchange to the Company, at the consideration of RMB265 million. Upon completion of the share transfers, Beijing Haiyouyou was wholly owned by Yonghe HK. The cash consideration of RMB70 million, RMB4 million and RMB106 million has been fully paid to Panmao Shanghai, Yonghe Yuhui and Beijing Xunyi on June 4, 2021. Then the consideration has been contributed to the Company and Beijing Yonghe Medical Investment Management Company Limited (the "Yonghe Investment", which is wholly owned by Beijing Haiyouyou) by Panmao Shanghai through Yonghe Hair Service Holdings Limited, its special purpose vehicle incorporated in BVI, Yonghe Yuhui and Beijing Xunyi, respectively. The shares exchanges from Beijing Haiyouyou to the Company of CYH and Hu & Yan were completed on May 10, 2021.

***(ii) Transfer of shares of the operating companies***

The Group underwent the following onshore reorganisation:

(a) Yonghe Investment transferred its entire equity interests in the entities which does not engage in restricted or prohibited foreign investment business pursuant to the applicable PRC laws and regulations to Beijing Haiyouyou or its wholly owned subsidiaries. Specifically, Yonghe Investment transferred (i) the 100% equity interests it owned in Beijing Maoduoduo Skin Clinic Company Limited to Beijing Yunyihui Medical Management Company Limited on October 22, 2020; (ii) the 100% equity interests it owned in Beijing Yunmao Chuangxiang Network Technology Company Limited to Beijing Yonghe Hair Transplant Technique Research Laboratory Company Limited (the "Yonghe Research Laboratory") on November 3, 2020; (iii) the 100% equity interests it owned in Yonghe Research Laboratory to Beijing Haiyouyou on December 7, 2020; (iv) the 100% equity interests it owned in Jinan Yongxin Medical Technology Company Limited to Yonghe Research Laboratory on March 17, 2021, and (v) the 100% equity interests it owned in Chengdu Wuhou Yonghe Jimei Medical Aesthetic Clinic Company Limited ("Chengdu Yonghe") to Beijing Haiyouyou on November 17, 2020.

(b) On November 27, 2020, Beijing Xunyi contributed RMB4,285,714 to Yonghe Investment, resulting in the increase in the registered capital of Yonghe Investment to RMB14,285,714. Immediately after such capital contribution, Yonghe Investment was held as to 70% by Beijing Haiyouyou and 30% by Beijing Xunyi. The consideration for such capital contribution was fully paid up on June [10], 2021.

(c) On November 30, 2020, Beijing Xunyi contributed RMB555,556 to Chengdu Yonghe, resulting in the increase in the registered capital of Chengdu Yonghe to RMB555,556. Immediately after such capital contribution, Chengdu Yonghe was held as to 90% by Beijing Haiyouyou and 10% by Beijing Xunyi. The consideration for such capital contribution was fully paid up on June [10], 2021.

***(iii) VIE arrangements***

The Group originally has 70% and 90% equity interest in Yonghe Investment and Chengdu Yonghe (collectively, the "VIE entities") and is considered to have control over the VIE entities. On January 6, 2021, Beijing Haiyouyou, Yonghe Investment (together with all the medical institutions it owned), Chengdu Yonghe, Beijing Xunyi, Mr. Zhang Yu and Mr. Zhang Hui entered into various agreements constituting the contractual arrangements (the "Contractual Arrangements") apply to the 30% and 10% equity interests in Yonghe Investment and Chengdu Yonghe, respectively, which enable the Group to:

(a) receive 30% and 10% of the economic interest returns generated by Yonghe Investment and Chengdu Yonghe, respectively, in consideration for technical support, consulting services and other services provided by Beijing Haiyouyou;

(b) exercise 30% and 10% equity holders' rights and power of Yonghe Investment and Chengdu Yonghe, respectively; exercise all of the rights and powers as a shareholder of Beijing Xunyi;

(c) obtain an irrevocable and exclusive right to purchase all or part of equity interests in the VIE entities from Beijing Xunyi at a minimum purchase price permitted under PRC laws and regulations. The Group may exercise such options at any time until it has acquired all equity interests and/or all assets of the VIE entities;

(d) obtain an irrevocable and exclusive right to purchase all or part of equity interests in Beijing Xunyi from Mr. Zhang Yu and Mr. Zhang Hui at a minimum purchase price permitted under PRC laws and regulations. The Group may exercise such options at any time until it has acquired all equity interests and/or all assets of Beijing Xunyi;

(e) obtain a pledge over the respective equity interest in Beijing Xunyi of Mr. Zhang Yu and Mr Zhang Hui and a pledge over the entire equity interest of VIE entities from Beijing Xunyi to secure performance of all the obligations of Mr. Zhang Yu, Mr Zhang Hui and Beijing Xunyi underlying the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group can consolidated 100% interests over the VIE entities without non-controlling interests and Beijing Xunyi.

As a result, the Reorganisation was completed.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following principal subsidiaries:

| Company Name | Country/place and date of incorporation/ establishment | Registered/ Issued and paid-up capital | Attributable equity interest of the Group | | | | | Principal activities/ place of operation | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | As at December 31, | | | As at June 30, | As at the date of this | | |
| | | | 2018 | 2019 | 2020 | 2021 | report | | |
| **Directly held:** | | | | | | | | | |
| Yonghe Management Consulting Co., Ltd. | The BVI, September 25, 2020, limited liability company | RMB6.81 | N/A | N/A | 100% | 100% | 100% | Consulting, the BVI | (1) and (3) |
| **Indirectly held:** | | | | | | | | | |
| Yonghe Investment ("北京雍禾醫療投資管理有限公司") | The PRC, September 30, 2015, limited liability company | RMB14,285,714.30 | 100% | 100% | 100% | 100% | 100% | Hair transplant , The PRC | (1) and (2) |
| Svenson Hair Centre (Beijing) Company Limited ("史雲遜護髮(北京)有限公司") | The PRC, November 5, 2003, limited liability company | RMB8,751,841.25 | 100% | 100% | 100% | 100% | 100% | Hair care, The PRC | (1) and (3) |
| Beijing Hafada Hair Increase Technology Company Limited ("北京哈發達增發科技有限公司") | The PRC, May 9, 2020, limited liability company | RMB8,000,000.00 | N/A | N/A | 100% | 100% | 100% | Wig business, The PRC | (1) and (3) |
| Beijing Yunyihui Medical Management Company Limited ("北京雲醫匯醫療管理有限公司") | The PRC, October 13, 2020, limited liability company | RMB10,000,000.00 | N/A | N/A | 100% | 100% | 100% | Hair consulting, The PRC | (1) and (3) |
| Yonghe Research Laboratory ("北京雍禾植發技術研究院有限公司") | The PRC, May 9, 2011, limited liability company | RMB500,000.00 | 100% | 100% | 100% | 100% | 100% | Hair research, The PRC | (1) and (3) |

*Notes:*

(1) All companies comprising the Group have adopted December 31, as their financial year end date.

(2) The statutory auditor of Yonghe Investment was BDO China Shu Lun Pan CPA LLP for the years ended December 31, 2018 and 2019, and Beijing Xiwen CPA LLP for the year ended December 31, 2020. No statutory audited financial statements were issued for the six months ended June 30, 2021.

(3) No statutory audited financial statements were issued for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, as they were newly incorporated or not required to issue audited financial statements under relevant rules and regulations in their jurisdiction of incorporation.

**1.3 Basis of Presentation**

The companies now comprising the Group, engaging in the [**REDACTED**] Business, were under common control of the controlling shareholder, immediately before and after the Reorganization. Accordingly, the Reorganization is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The Historical Financial Information has been prepared by including the historical financial information of the companies engaged in the [**REDACTED**] Business, under the common control of the controlling shareholder immediately before and after the Reorganisation and now comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of the Holding companies, whichever is a shorter period.

The net assets of the combining companies were consolidated using the existing book values from the controlling shareholder's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

For companies acquired from, or disposed to a third party during each of the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, they are included in or excluded from the consolidated Historical Financial Information of the Group from the date of acquisition or disposal.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This note provides a list of significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied to all the years presented, unless otherwise stated. The Historical Financial Information is for the Group consisting of the Company and the companies now comprising the Group.

**2.1 Basis of preparation**

***(i) Compliance with HKFRS***

The Historical Financial Information of the Company has been prepared in accordance with principal accounting policies as set out below which are in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") .

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

***(ii) Historical cost convention***

The Historical Financial Information has been prepared on a historical cost basis, as modified by the revaluation of financial assets at fair value through profit and loss.

***(iii) New and amended standards adopted by the Group***

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018:

- HKFRS 16 *Leases*

The Group also elected to early adopt the Amendment to HKFRS 16 *COVID-19 Related Rent Concessions* in the Historical Financial Information.

*(iv) New standards and interpretations not yet adopted*

The Group has not early applied the following new and amendments to HKFRS that have been issued but are not yet effective:

| | Effective for annual periods beginning on or after |
|---|---|
| HKFRS 17 – Insurance Contracts | January 1, 2023 |
| Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current | January 1, 2023 |
| Amendments to HKAS 37 – Onerous Contracts – Cost of Fulfilling a Contract | January 1, 2022 |
| Amendments to HKAS 16 – Property, Plant and Equipment: Proceeds before Intended Use | January 1, 2022 |
| Amendments to HKFRS 3 – Reference to the Conceptual Framework | January 1, 2022 |
| Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| Annual Improvements to HKFRS Standards 2018-2020 | January 1, 2022 |
| Amendments to HKAS 12 Deferred Tax Related to Assets and Liabilities arising from a Single Transaction | January 1, 2023 |

The directors of the Company anticipate that the application of the above new standard, amendments and annual improvements will have no material impact on the Group's consolidated financial statements in the foreseeable future.

*(v) Going Concern*

As at December 31, 2018, 2019 and 2020 and as at June 30, 2021, the Group's current liabilities exceeded its current assets by approximately RMB53 million, RMB102 million, RMB68 million and RMB31 million, respectively.

The management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by the management to improve the financial position and alleviate the liquidity pressure. Relevant measures and consideration of liquidity management include: (i) the Group had steady and heavy operating cash flow during the whole Track Record Period; (ii) as at June 30, 2021, the Group had undrawn borrowing facilities amounting to approximately RMB16 million, which can be used to finance its daily operational cash outflow. The management had prepared a cash flow projection covering the year ending December 31, 2022. Based on the projection, the Group is expected to remain solvent during the next twelve months form June 30, 2021.

The directors have reviewed the Group's cash flow projection and have made due and careful enquiry and considered the basis and assumptions of management's projections. The directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming year. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

**2.2 Principles of consolidation and equity accounting**

*(i) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (Note 2.3).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, statements of changes in equity and balance sheets respectively.

*(ii) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRS.

If the ownership interest in an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**2.3 Business combinations**

*(i) Business combinations not under common control*

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

*(ii) Business combinations under common control*

The Historical Financial Information incorporates the financial statement items of the entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

A uniform set of accounting polices is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining entities or businesses are eliminated.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

**2.4 Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the financial statements of the investee's net assets including goodwill.

**2.5 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Company assesses the financial performance and position of the Group and makes strategic decisions and is identified as the Chief Operating Decision Maker ("CODM") responsible for allocating resources and assessing performance of the operating segment.

**2.6 Foreign currency translation**

***(i) Functional and presentation currency***

Items included in Historical Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is United States Dollar ("USD"). As the majority of the assets and operations of the Group are located in the PRC, the Historical Financial Information is presented in RMB. The Group's presentation currency differs from Company's functional as management rely on management accounts prepared in RMB for review of historical and performance and decision making.

***(ii) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

***(iii) Group companies***

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

**2.7 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of medical treatment and safety infrastructure and leasehold improvements, the shorter lease term, as follows:

| | |
|---|---|
| Medical equipment | 5 years |
| Electronic equipment | 3-5 years |
| Office furniture fixtures | 5 years |
| Motor vehicles | 4 years |
| Medical treatment and safety infrastructure and leasehold improvements | Shorter of remaining lease term or estimated useful life |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

**2.8 Intangible assets**

***(i) Software***

The software represents the purchased computer software which are capitalized on the basis of the costs incurred to acquire the specific software. Based on the current functionalities equipped by the software and the daily operation needs, the Group considers a useful life of 10 years is the best estimation under current business needs. Therefore, these costs are amortized over 10 years using the straight-line method.

***(ii) Goodwill***

Goodwill is measured as described in note 2.3. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

***(iii) Trademarks***

Separately acquired trademarks are shown at historical cost. The trademark is acquired in a business combination and recognised at fair value at the acquisition date with the finite useful life of 11 years. Subsequently the trademark is carried at cost less accumulated amortisation using the straight line method and impairment losses (if any). When determining the estimated useful life, the Group considered the forecasted period during which the trademarks can bring the incremental economic benefit to the Group and the operating history of the trademarks.

**2.9 Research and development**

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

Capitalised development cost is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation of capitalised development cost is calculated using the straight-line method over its expected useful life from the date they are available for use.

**2.10 Impairment of non-financial assets**

Goodwill is not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**2.11 Investments and other financial assets**

***(i) Classification***

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

***(ii) Recognition and derecognition***

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

***(iii) Measurement***

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

*Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in profit or loss and presented within other gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

***(iv) Impairment***

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 18 for further details.

**2.12 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

**2.13 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**2.14 Trade receivables**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within one year and therefore all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

**2.15 Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**2.16 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the [**REDACTED**].

**2.17 Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**2.18 Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**2.19 Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

***(i) Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***(ii) Deferred income tax***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences, tax losses and tax credits.

Deferred income tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets and liabilities and where the deferred income tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**2.20 Employee benefits**

***(i) Short-term obligations***

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

***(ii) Pension obligations***

The Group has only defined contribution plan in which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

***(iii) Medical and other benefits***

The Group makes monthly contributions for medical and other benefits to the local authorities in accordance with relevant local regulations for the employees. The Group's liability in respect of employee medical benefits is limited to the contributions payable in each period.

***(iv) Housing benefits***

The employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

**2.21 Share-based compensation**

Share-based compensation benefits are provided to employees, and information relating to these schemes is set out in Note 23.

The fair value of awarded shares granted to employees less amount paid by employees is recognised as an employee benefits expense over the relevant service period, being the vesting period of the shares, and the credit is recognised in equity in the share-based compensation reserve. The fair value of the shares is measured at the grant date. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based compensation reserve. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective at the date of the forfeiture.

**2.22 Provisions**

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**2.23 Revenue recognition**

Revenues are recognised when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

The progress towards complete satisfaction of performance obligation is measured based on direct measurements of the value of individual services transferred by the Group to the customer.

If contracts involve the sale of multiple goods, goods followed by related services, or multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin, depending on the availability of observable information.

When either party to a contract has performed, the Group presents the contract in the balance sheets as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

The Group offers some discounts to the customers, and revenue is recognised based on the price specified in the contract, net of the discount.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or the receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

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.

The following is a description of the accounting policy for the principal revenue streams of the Group.

***(i) Hair transplant***

For hair transplant service, customers normally receive treatment which contains various treatment components (e.g. pre-surgery medical checking, surgery treatment and post-surgery cleaning) that are all highly relevant and regarded as one performance obligation. Revenue from provision of hair transplantation services recognised at a point in time when the services have been rendered to customers.

The Group usually receives the payment from customers in advance before the services are rendered. The majority of customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The Group has estimated the refund in respect of unsatisfactory services rendered based on the Group's past experience with customers and recognised as refund liabilities (see Note 4(a)). The contract liability is recognised as revenue when the related services are rendered.

Sales of hair transplant related goods are recognised when an entity has transferred the products to the customer, and the customer has obtained control of the products.

*(ii) Medical hair care*

The Group provides medical hair care services in package which is accounted as multiple elements of services. Revenue from medical hair care 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. Normally, there is no expiry date for the packages while majority of the customers take up all the services in the packages within two years.

The Group usually receives the payment from customers in advance before the services are rendered. The majority of customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The Group has estimated the refund in respect of unsatisfactory services rendered based on the Group's past experience with customers and recognised as refund liabilities (see Note 4(a)). The contract liability is recognised as revenue when the related services are rendered.

Sales of goods related to medical hair care are recognised when an entity has transferred the products to the customer, and the customer has obtained control of the products.

*(iii) Others*

The Group also provides routine hair care services in package which is accounted as multiple elements of services. Revenue from routine hair care 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. Normally, there is no expiry date for the packages while majority of the customers take up all the services in the packages within two years.

The Group usually receives the payment from customers in advance before the services are rendered. Customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The contract liability is recognised as revenue when the related services are rendered.

Sales of goods related to routine hair care are recognised when an entity has transferred the products to the customer, and the customer has obtained control of the products.

**2.24 Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares,
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**2.25 Leases**

The Group leases buildings as lessee. Rental contracts are typically made for fixed periods of 1 to 15 years.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (if applicable):

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following (if applicable):

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received, and
- any initial direct costs.

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

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

A lessee normally recognises an asset and a lease liability when it enters into most leases under HKFRS 16. The Group considers the lease as a single transaction in which the asset and liability are integrally linked, so there is no net temporary difference at inception. Subsequently, as differences arise on settlement of the liability and the amortisation of the leased asset, there will be a net temporary difference on which deferred tax is recognised.

Amendment to HKFRS 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 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 June 30, 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after June 1, 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended December 31, 2020, certain monthly lease payments for the leases of the Group's workspaces have been reduced or waived by the lessors upon reducing the scale of production as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on January 1, 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended December 31, 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of approximately RMB5,567,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended December 31, 2020.

**2.26 Dividend distribution**

Dividend distribution to the shareholders is recognised as a liability in the Historical Financial Information in the year in which the dividends are approved by the entities' shareholders or directors, where appropriate.

**2.27 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment and other non-current assets are included in the non-current liabilities and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

**2.28 Interest income**

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

**3. FINANCIAL RISK MANAGEMENT**

**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the executive directors.

***(a) Foreign currency risk***

The functional currency of majority of the entities within the Group is RMB. Most of the Group's transactions are based and settled in RMB. Foreign currencies are used to settle the Group's revenue and borrowings out of mainland China.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

Details of the Group's cash and cash equivalents, and borrowings as at June 30, 2021, denominated in foreign currencies, mainly USD, are disclosed in Notes 21, and 24 respectively.

The management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

***(b) Cash flow and fair value interest rate risk***

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, details of which have been disclosed in Note 21.

The Group has no long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. And lease liabilities expose the Group to fair value interest rate risk. The Group currently has not used any interest rate swap arrangements.

***(c) Credit risk***

*(i) Risk management*

The Group is exposed to credit risk primarily in relation to its cash and cash equivalents as well as trade receivables and other financial assets at amortised cost. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned or reputable financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions.

*(ii) Impairment of financial assets*

The Group has the following types of financial assets subject to expected credit loss model:

- trade receivables
- other financial assets at amortised cost

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was insignificant.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The expected credit loss also incorporate forward looking information.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, and management makes periodic assessments as well as individual assessment on the recoverability based on historical settlement records and past experience. Forward-looking information incorporated in the expected credit loss model. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal and external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the Group and changes in the operating results of the debtor.

*(iii) Net impairment losses on financial assets recognised in profit or loss*

During the Track Record Period, the following losses were recognised in profit or loss in relation to impaired financial assets:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Impairment losses | | | | | |
| Movement in loss allowance for trade receivables *(Note 18)* | (66) | 38 | (51) | (7) | 26 |
| Movement in loss allowance for other receivables *(Note 19)* | (1,567) | (72) | (436) | (272) | (402) |
| Net impairment losses on financial assets | (1,633) | (34) | (487) | (279) | (376) |

*(d) Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total | Carrying amount |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At December 31, 2018** | | | | | | |
| Trade and other payables* | 31,574 | – | – | – | 31,574 | 31,574 |
| Lease liabilities | 78,110 | 74,310 | 186,250 | 142,851 | 481,521 | 400,313 |
| | 109,684 | 74,310 | 186,250 | 142,851 | 513,095 | 431,887 |
| **At December 31, 2019** | | | | | | |
| Borrowings | 45,815 | – | – | – | 45,815 | 44,827 |
| Trade and other payables* | 38,944 | – | – | – | 38,944 | 38,944 |
| Lease liabilities | 99,770 | 94,100 | 238,266 | 187,088 | 619,224 | 508,040 |
| | 184,529 | 94,100 | 238,266 | 187,088 | 703,983 | 591,811 |
| **At December 31, 2020** | | | | | | |
| Borrowings | 26,259 | – | – | – | 26,259 | 25,870 |
| Trade and other payables* | 63,600 | – | – | – | 63,600 | 63,600 |
| Lease liabilities | 151,785 | 154,069 | 398,048 | 299,310 | 1,003,212 | 829,930 |
| | 241,644 | 154,069 | 398,048 | 299,310 | 1,093,071 | 919,400 |
| **At June 30, 2021** | | | | | | |
| Borrowings | 219,001 | – | – | – | 219,001 | 214,395 |
| Trade and other payables* | 117,235 | – | – | – | 117,235 | 117,235 |
| Lease liabilities | 162,324 | 154,177 | 383,843 | 257,649 | 957,993 | 802,360 |
| | 498,560 | 154,177 | 383,843 | 257,649 | 1,294,229 | 1,133,990 |

* Excluding non-financial liabilities of accrued employee benefits and tax payable.

**3.2 Capital risk management**

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity holders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the asset-liability ratio. This ratio is calculated as total liabilities divided by total assets. The Group aims to maintain the asset-liability ratio at a reasonable level.

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total liability | 530,949 | 692,093 | 1,188,298 | 1,462,461 |
| Total assets | 734,445 | 931,213 | 1,594,356 | 1,996,794 |
| **The liability-to-asset ratio** | 72.29% | 74.32% | 74.53% | 73.24% |

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Estimation of 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 estimated the refund which is based on the Group's past experience with 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 approximately RMB4 million, RMB5 million, RMB8 million and RMB11 million as at December 31, in 2018, 2019 and 2020 and as at June 30, 2021, respectively (Note 25).

### (b) Recognition of share-based compensation expenses

As mentioned in Note 23, an equity-settled share-based compensation plan was granted to the employees. The directors have used discounted cash flow method to determine the total fair value of the underlying shares granted to employees, which is to be expensed over the vesting period. Significant estimate on key assumptions, such as discount rate, risk-free interest rate, expected volatility and discount for lack of marketability, is required to be made by the directors in applying the discounted cash flow method.

As the awards granted in equity-settled share-based compensation plan are conditional on a Qualified Initial Public Offerings ("QIPO"). The directors have estimated the QIPO's probability and QIPO date when they calculated share-based compensation expenses at each reporting period end. Since QIPO condition is considered as vesting condition, the Group also needs to estimate on the basis of the most likely outcome.

### (c) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination are made.

Yonghe Investment is qualified as "High and New Technology Enterprises" ("HNTEs") and is entitled to the preferential income tax rate of 15%. The qualification is valid 3 years, and upon expiry the Company is required to submit the application to relevant government authority to certify the HNTEs qualification. If the Company disqualified from the HNTEs certification, it cannot enjoy the preferential income tax, and the change in tax rate will affect the current and deferred income taxes in the period in which the change takes place.

Deferred income tax assets relating to tax losses and unused tax credits are recognised as management considers it is probable that future taxable profit will be available against which the tax losses and tax credits can be utilised. Future taxable profit includes the profit from operating results and taxable profits of future periods reversed of taxable temporary differences. Estimates and judgement are required in determining the timing and amount of future taxable profit generated. In case where the actual future taxable profit generated are less than expected, or change in facts and circumstances which result in revision of future taxable profit estimation, a material reversal or further recognition of deferred tax assets may arise, which will be recognised in the consolidated income statement in the period in which such a reversal or further recognition takes place. As of the respective balance sheet date, the Group's unrecognised deferred income tax assets in respect of tax losses and tax credits have been set out in Note 12.

## 5. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the board of directors of the Company that make strategic decisions. The Group is principally engaged in the provision of hair transplant service which are subject to similar type of services, similar class of customers, similar regulatory environment and similar business risk. Resources are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit. Therefore, the CODM of the Company regards that there is only one operating segment for the Group.

The major operating entities of the Group are all domiciled in the PRC and major of the Group's revenue were derived in the PRC during the Track Record Period.

As at December 31, 2018, 2019 and 2020 and as at June 30, 2021, major of non-current assets of the Group were located in the PRC.

There was no revenue derived from a single external customer accounting for 10% or more of the Group's revenue during the Track Record Period.

## 6. REVENUE FROM CONTRACTS WITH CUSTOMERS

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Hair transplant | 918,014 | 1,197,775 | 1,412,744 | 567,225 | 789,522 |
| Medical hair care | – | 15,060 | 213,214 | 30,687 | 254,189 |
| Others | 16,312 | 11,642 | 12,339 | 3,651 | 9,689 |
| | 934,326 | 1,224,477 | 1,638,297 | 601,563 | 1,053,400 |

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Revenue from customer and recognised at a point time | | | | | |
| Hair transplant | 918,014 | 1,197,775 | 1,412,744 | 567,225 | 789,522 |
| Medical hair care – sale of goods | – | 6,928 | 18,575 | 5,890 | 15,405 |
| Others – sale of goods | 1,683 | 2,162 | 5,390 | 1,457 | 4,888 |
| | 919,697 | 1,206,865 | 1,436,709 | 574,572 | 809,815 |
| Revenue from customer and recognised over time | | | | | |
| Medical hair care – services | – | 8,132 | 194,639 | 24,797 | 238,784 |
| Others – services | 14,629 | 9,480 | 6,949 | 2,194 | 4,801 |
| | 14,629 | 17,612 | 201,588 | 26,991 | 243,585 |
| **Total** | 934,326 | 1,224,477 | 1,638,297 | 601,563 | 1,053,400 |

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Revenue from customer by region | | | | | |
| Mainland PRC | 934,326 | 1,224,477 | 1,638,297 | 601,563 | 1,052,646 |
| Hong Kong | – | – | – | – | 754 |
| | 934,326 | 1,224,477 | 1,638,297 | 601,563 | 1,053,400 |

## 7. OTHER INCOME

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| VAT additional deduction (a) | – | 938 | 1,802 | 629 | 1,640 |
| Government grants (b) | 24 | 505 | 4,082 | 601 | 493 |
| Others | 909 | – | 420 | 124 | – |
| | 933 | 1,443 | 6,304 | 1,354 | 2,133 |

(a) The amounts represent the additional deduction of value-added tax applicable to certain subsidiaries of the Group providing hair care services since April 2019.

(b) Government grants relating to income include various government subsidies received by the group entities from the relevant government bodies in connection with enterprise development, tax refund and employee related grants etc. All subsidies were recognised at the time when the Group fulfilled the relevant criteria and the related expenses were incurred.

## 8. OTHER GAINS AND LOSSES, NET

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Gains on disposal of subsidiaries | 2,400 | 1,100 | – | – | – |
| Losses on disposal of property, plant and equipment | (5,704) | (1,849) | (3,984) | (3,597) | (451) |
| Compensation expenditure to customers | (394) | (297) | (2) | – | – |
| Donation | – | – | (1,000) | (1,000) | – |
| Compensation from the early-termination of a property lease | – | – | – | – | 6,431 |
| Others | (3,323) | (2,327) | (2,752) | (1,169) | 1,231 |
| | (7,021) | (3,373) | (7,738) | (5,766) | 7,211 |

## 9. EXPENSES BY NATURE

Expenses included in cost of sales and services, selling and marketing expenses, general and administrative expenses and research and development expenses are further analysed as follows:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Promotion and marketing related expenses | 328,092 | 458,139 | 507,667 | 148,507 | 389,436 |
| Employee benefits expenses *(Note 10)* | 264,846 | 370,289 | 494,886 | 194,646 | 330,022 |
| Depreciation of right-of-use assets *(Note 15)* | 51,800 | 72,967 | 82,990 | 38,657 | 52,949 |
| Depreciation of property, plant and equipment *(Note 14)* | 32,535 | 56,347 | 75,732 | 35,635 | 43,812 |
| Cost of inventories and consumables | 25,941 | 40,405 | 63,951 | 19,831 | 46,307 |
| Utilities, maintenance fee and office expenses | 28,509 | 40,492 | 35,749 | 14,078 | 23,176 |
| Taxes and surcharges | 10,589 | 17,353 | 30,103 | 6,629 | 19,732 |
| Travelling and entertainment expenses | 29,421 | 29,962 | 27,922 | 8,538 | 18,568 |
| Rental expenses for short-term leases *(Note 15(b))* | 9,823 | 10,750 | 13,956 | 6,515 | 6,076 |
| Consulting service fee | 816 | 678 | 3,268 | 2,920 | 1,168 |
| [**REDACTED**] expenses | – | – | 3,827 | – | 7,545 |
| Technical fee | 775 | 1,070 | 2,616 | 642 | 2,909 |
| Auditors' remuneration | 712 | 872 | 1,959 | 716 | 1,186 |
| Amortisation of intangible assets *(Note 16)* | 114 | 391 | 403 | 186 | 306 |
| Other expenses | 13,674 | 24,757 | 25,086 | 10,042 | 10,031 |
| Total | 797,647 | 1,124,472 | 1,370,115 | 487,542 | 953,223 |

## 10. EMPLOYEE BENEFITS EXPENSES

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Wages, salaries and bonuses | 230,045 | 320,698 | 458,974 | 176,264 | 291,092 |
| Share-based compensation expenses | – | – | 3,606 | 3,513 | 92 |
| Pension costs – defined contribution plans | 16,811 | 19,605 | 1,914 | 1,914 | 16,743 |
| Other social security costs | 8,626 | 12,278 | 12,540 | 4,276 | 10,009 |
| Housing benefits | 5,937 | 8,783 | 11,255 | 4,800 | 7,524 |
| Welfare and other expenses | 3,427 | 8,925 | 6,597 | 3,879 | 4,562 |
| | 264,846 | 370,289 | 494,886 | 194,646 | 330,022 |

(i) Employees of the Group are required to participate in a defined contribution plan administrated and operated by the local municipal government in the PRC. The Group contributes funds which are calculated on certain percentages of the employee salary as agreed by the local municipal government to the plan to fund the retirement benefits of the employees.

(ii) Pension costs – defined contribution plans decreased in 2020, primarily due to the reduction and exemption policy of pension by the local municipal government due to COVID-19 outbreak in 2020.

(iii) Five highest paid individuals

The five individuals whose emoluments are the highest in the Group for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021 include 2, 0, 1, 1 and 1 directors respectively whose emoluments are reflected in the analysis shown in Note 31. The emoluments payable to the remaining 3, 5, 4, 4 and 4 individuals during the Track Record Period respectively are as follows:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Wages, salaries, bonuses, housing funds and other employees benefits | 1,613 | 6,962 | 6,485 | 2,661 | 2,065 |
| Share-based compensation expenses | – | – | 7 | 3 | 6 |
| | 1,613 | 6,962 | 6,492 | 2,664 | 2,071 |

The emoluments of the 3, 5, 4, 4 and 4 individuals fell within the following bands:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Emoluments bands: | | | | | |
| Nil to HK$1,000,000 | 3 | – | – | 3 | 4 |
| HK$1,000,001 to HK$1,500,000 | – | 2 | – | 1 | – |
| HK$1,500,001 to HK$2,000,000 | – | 3 | 2 | – | – |
| HK$2,000,001 to HK$2,500,000 | – | – | 2 | – | – |
| | 3 | 5 | 4 | 4 | 4 |

During the Track Record Period, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

## 11. FINANCE COSTS – NET

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| **Finance income** | | | | | |
| Interest income on bank deposits | 139 | 210 | 941 | 218 | 2,408 |
| **Finance costs** | | | | | |
| Interest expenses on bank borrowings | – | (1,275) | (1,488) | (1,025) | (1,150) |
| Interest expenses for lease liabilities | (17,808) | (25,453) | (34,800) | (14,982) | (21,528) |
| | (17,808) | (26,728) | (36,288) | (16,007) | (22,678) |
| **Finance costs – net** | (17,669) | (26,518) | (35,347) | (15,789) | (20,270) |

## 12. INCOME TAX EXPENSES

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Current income tax | 68,883 | 44,836 | 75,715 | 34,435 | 52,197 |
| Deferred income tax *(Note 27)* | (11,094) | (8,937) | (8,133) | (6,353) | (3,763) |
| Income tax expense | 57,789 | 35,899 | 67,582 | 28,082 | 48,434 |

**(a) Cayman Islands**

The Company is incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands and is not subject to Cayman Islands income tax.

**(b) Hong Kong Profits Tax**

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.

**(c) PRC Enterprise Income Tax ("EIT")**

Except as described below, the income tax provision of the Group in respect of its operations in the PRC was subject to statutory tax rate of 25% on the estimated assessable profits for the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

On October 31, 2018, Yonghe Investment was qualified as HNTEs under the relevant PRC laws and regulations. This status is subject to a requirement that Yonghe Investment reapply for HNTEs status every three years.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% are as follows:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Profit before income tax | 111,289 | 71,523 | 230,914 | 93,541 | 88,875 |
| Tax calculated at statuary tax rate of 25% | 27,822 | 17,881 | 57,729 | 23,385 | 22,219 |
| Tax effects of: | | | | | |
| Unused tax credits for which no deferred income tax assets was recognised (i) | 30,946 | 20,870 | 21,434 | 3,288 | 25,367 |
| Expenses not deductible for tax purposes | 1,711 | 1,183 | 1,400 | 143 | 245 |
| Research and development tax credit | (141) | (542) | (2,180) | (1,023) | (1,085) |
| Tax losses for which no deferred income tax asset was recognised | 466 | 487 | 1,064 | 743 | 833 |
| Impact of preferential tax rates | (3,015) | (3,980) | (11,865) | 1,546 | (7,484) |
| Income tax of shares transfer of Beijing Haiyouyou in Reorganisation | – | – | – | – | 8,339 |
| | 57,789 | 35,899 | 67,582 | 28,082 | 48,434 |

(i) Pursuant to the EIT Law and related regulations, the pre-tax deduction for advertising expenses is limited to the 15% of the revenue in the current year, and the excess could be carried forward for deduction in the following years. Deferred income tax assets relating to unused tax credits of advertising expense are not recognised as management considers it is not probable to utilise these unrecognised tax credits in the foreseeable future because the Group will continue to invest on promotion and marketing activities to expand its businesses.

As at December 31, 2018, 2019 and 2020 and as at June 30, 2021, unused tax credits for which no deferred income tax assets has been recognised in respect of deductible advertising expense carried forward amounted to approximately RMB222 million, RMB305 million, RMB391 million, and RMB494 million, respectively.

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unused tax losses for which no deferred income tax assets has been recognised for entities subject to the income tax rate of 25% | 2,289 | 2,889 | 2,946 | 6,277 |

The expiry dates of the unused tax losses as of the respective balance sheet dates are listed as below.

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Year/period ended/ending: | | | | |
| 2020 | 10 | 10 | – | – |
| 2021 | – | – | – | – |
| 2022 | 413 | 413 | 413 | 413 |
| 2023 | 1,866 | 863 | 863 | 863 |
| 2024 | – | 1,603 | 722 | 722 |
| 2025 | – | – | 948 | 948 |
| 2026 | – | – | – | 3,331 |
| | 2,289 | 2,889 | 2,946 | 6,277 |

Pursuant to the Detailed Implementation Regulations for Implementation of the EIT Law issued on December 6, 2007, dividends distributed from the profits generated by the PRC companies after January 1, 2008 to their foreign investors shall be subject to this withholding income tax of 10%, a lower 5% withholding income tax rate may be applied when the immediate holding companies of the subsidiaries in Mainland China are incorporated in Hong Kong and fulfill the requirements to the tax treaty arrangements between Mainland China and Hong Kong. The Group has not accrued any withholding income tax for the undistributed earnings of its subsidiaries in Mainland China as the Group does not have a plan to distribute these earnings from its subsidiaries in Mainland China.

## 13. EARNINGS PER SHARE

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding undistributed earnings attributable to unvested restricted shares during the vesting period (Note 23);
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme (Note 23). The shares subscribed for the interests in the Company upon the Reorganization and the share split pursuant to the shareholders' resolution passed on November 12, 2021 as mentioned in Note 35 had been adjusted retrospectively as if those shares have been issued since 1 January 2018.

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Profit for the year/period attributable to owners of the Company *(RMB'000)* | 53,500 | 35,624 | 163,332 | 65,459 | 40,441 |
| Less: undistributed earnings attributable to unvested restricted shares during vesting period | – | – | (16,368) | (4,373) | (1,077) |
| Profit attributable to the ordinary equity owners of the company used in calculating basic earnings per share | 53,500 | 35,624 | 146,964 | 61,086 | 39,364 |
| Weighted average number of ordinary equity shares in issue *('000)* | 400,000 | 400,000 | 375,890 | 383,912 | 378,241 |
| Basic earnings per share for profit attributable to ordinary equity owners of the Company during the year/period (expressed in RMB per share) | 0.13 | 0.09 | 0.39 | 0.16 | 0.10 |

### (b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- undistributed earnings attributable to unvested restricted shares during the vesting period added back to the numerator, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Profit attributable to the ordinary equity owners of the Company *(RMB'000)* | | | | | |
| Used in calculating basic earnings per share | 53,500 | 35,624 | 146,964 | 61,086 | 39,364 |
| Add: undistributed earnings attributable to unvested restricted shares during vesting period | – | – | 16,368 | 4,373 | 1,077 |
| Profit attributable to the ordinary equity owners of the company used in calculating diluted earnings per share | 53,500 | 35,624 | 163,332 | 65,459 | 40,441 |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 400,000 | 400,000 | 375,890 | 383,912 | 378,241 |
| Adjustments for calculation of diluted earnings per share: Restricted shares | – | – | 43,172 | 28,901 | 47,139 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 400,000 | 400,000 | 419,062 | 412,813 | 425,380 |
| Diluted earnings per share for profit attributable to owners of the Company during the year/period (expressed in RMB per share) | 0.13 | 0.09 | 0.39 | 0.16 | 0.10 |

**(c) Information concerning the classification of securities**

Restricted shares granted to employees under share award schemes are not regarded as outstanding until they are vested. The restricted shares have not been included in the determination of basic earnings per share. Restricted shares are entitled to undistributed earnings during the vesting period, and the numerator should be adjusted for undistributed earnings attributable to unvested restricted shares. These shares are excluded from the weighted average number of ordinary shares for the calculation of basic earning per share.

Restricted shares have been included in the determination of diluted earnings per share. The adjustment to basic earning per share are added back to the numerator in diluted earning per share.

Details relating to the restricted shares are set out in Note 23.

**14. PROPERTY, PLANT AND EQUIPMENT**

| | Medical equipment | Electronic equipment | Office furniture fixtures | Motor vehicles | Medical treatment and safety infrastructure and leasehold improvement | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost:** | | | | | | |
| At January 1, 2018 | 5,806 | 6,982 | 3,661 | 213 | 58,493 | 75,155 |
| Additions | 5,276 | 6,419 | 5,210 | 8 | 129,474 | 146,387 |
| Disposal | (1,054) | (879) | (283) | – | (9,933) | (12,149) |
| At December 31, 2018 | 10,028 | 12,522 | 8,588 | 221 | 178,034 | 209,393 |
| Additions | 6,606 | 8,023 | 4,826 | – | 101,725 | 121,180 |
| Disposal | (966) | (1,073) | (645) | (4) | (13,034) | (15,722) |
| At December 31, 2019 | 15,668 | 19,472 | 12,769 | 217 | 266,725 | 314,851 |
| Additions | 12,905 | 8,258 | 6,050 | 574 | 130,408 | 158,195 |
| Disposal | (566) | (995) | (414) | – | (49,449) | (51,424) |
| At December 31, 2020 | 28,007 | 26,735 | 18,405 | 791 | 347,684 | 421,622 |
| Acquisition of a subsidiary | – | 228 | – | – | 34 | 262 |
| Additions | 7,622 | 5,095 | 3,140 | 4 | 99,505 | 115,366 |
| Disposal | (537) | (798) | (537) | – | (5,582) | (7,454) |
| At June 30, 2021 | 35,092 | 31,260 | 21,008 | 795 | 441,641 | 529,796 |
| **Accumulated depreciation:** | | | | | | |
| At January 1, 2018 | (1,448) | (1,636) | (398) | (4) | (11,354) | (14,840) |
| Depreciation | (1,371) | (2,512) | (1,024) | (113) | (27,515) | (32,535) |
| Disposal | 711 | 579 | 178 | – | 4,672 | 6,140 |
| At December 31, 2018 | (2,108) | (3,569) | (1,244) | (117) | (34,197) | (41,235) |
| Depreciation | (2,308) | (4,788) | (2,033) | (53) | (47,165) | (56,347) |
| Disposal | 834 | 785 | 223 | 1 | 12,024 | 13,867 |
| At December 31, 2019 | (3,582) | (7,572) | (3,054) | (169) | (69,338) | (83,715) |
| Depreciation | (3,858) | (6,512) | (3,062) | (72) | (62,228) | (75,732) |
| Disposal | 267 | 685 | 214 | – | 46,096 | 47,262 |
| At December 31, 2020 | (7,173) | (13,399) | (5,902) | (241) | (85,470) | (112,185) |
| Depreciation | (2,991) | (3,648) | (1,932) | (69) | (35,172) | (43,812) |
| Disposal | 367 | 642 | 330 | – | 5,582 | 6,921 |
| At June 30, 2021 | (9,797) | (16,405) | (7,504) | (310) | (115,060) | (149,076) |

| | Medical equipment | Electronic equipment | Office furniture fixtures | Motor vehicles | Medical treatment and safety infrastructure and leasehold improvement | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Net carrying amount:** | | | | | | |
| At December 31, 2018 | 7,920 | 8,953 | 7,344 | 104 | 143,837 | 168,158 |
| At December 31, 2019 | 12,086 | 11,900 | 9,715 | 48 | 197,387 | 231,136 |
| At December 31, 2020 | 20,834 | 13,336 | 12,503 | 550 | 262,214 | 309,437 |
| At June 30, 2021 | 25,295 | 14,855 | 13,504 | 485 | 326,581 | 380,720 |

Depreciation expenses have been charged to profit or loss and presented in the consolidated statements of comprehensive income as follows:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Cost of sales and services | 28,155 | 48,749 | 65,457 | 30,725 | 37,772 |
| General and administrative expenses | 1,404 | 1,919 | 2,607 | 1,356 | 1,519 |
| Selling and marketing expenses | 2,934 | 5,576 | 7,519 | 3,457 | 4,440 |
| Research and development expenses | 42 | 103 | 149 | 97 | 81 |
| | 32,535 | 56,347 | 75,732 | 35,635 | 43,812 |

## 15. LEASES

### (a) Amounts recognised in the consolidated balance sheets

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Right-of-use assets (i)** | | | | |
| Leased buildings | 398,862 | 494,985 | 810,653 | 761,324 |
| **Lease liabilities** | | | | |
| Current | 75,381 | 96,868 | 147,051 | 157,979 |
| Non-current | 324,932 | 411,172 | 682,879 | 644,381 |
| | 400,313 | 508,040 | 829,930 | 802,360 |

(i) The movement in right-of-use assets in the consolidated balance sheets are as follows:

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | |
| At beginning of the year/period | 294,721 | 462,456 | 631,817 | 1,032,566 |
| Additions | 167,778 | 190,381 | 436,853 | 129,692 |
| Lease expiration | (15) | (6,921) | (16,561) | (19,873) |
| Termination of lease contracts | (28) | (14,099) | (19,543) | (23,398) |
| Lease modification *(Note)* | – | – | – | (86,075) |
| At end of the year/period | 462,456 | 631,817 | 1,032,566 | 1,032,912 |
| **Accumulated depreciation** | | | | |
| At beginning of the year/period | – | (63,594) | (136,832) | (221,913) |
| Depreciation charge for the year/period | (63,624) | (85,518) | (109,278) | (77,785) |
| Lease expiration | 15 | 6,921 | 16,561 | 19,873 |
| Termination of lease contracts | 15 | 5,359 | 7,636 | 8,237 |
| Lease modification *(Note)* | – | – | – | – |
| At end of the year/period | (63,594) | (136,832) | (221,913) | (271,588) |
| **Net book amount** | | | | |
| At end of the year/period | 398,862 | 494,985 | 810,653 | 761,324 |

*Note:*

The Group has leased a property for a new clinic in Beijing in May 2020 with a term of six years. Due to the change of the lessor, the Group needs to terminate this lease contract in July 2021 and then enters into another agreement with the new lessor. The change has no impact on the operation of the clinic. As at June 30, 2021, the termination contract with the original lessor was signed and becomes effective in July 2021.

**(b) Amounts recognised in the consolidated statements of comprehensive income**

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Depreciation charge of right-of-use assets | 51,800 | 72,967 | 88,557 | 42,505 | 52,949 |
| Rental reduction or waived due to COVID-19 *(Note 2.25)* | – | – | (5,567) | (3,848) | – |
| Interest expense *(Note 11)* | 17,808 | 25,453 | 34,800 | 14,982 | 21,528 |
| Expense relating to short-term leases | 9,823 | 10,750 | 13,956 | 6,515 | 6,076 |

**(c) Depreciation of right-of-use assets are charged to the following categories:**

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Cost of sales and services | 47,268 | 66,199 | 81,796 | 39,312 | 49,030 |
| General and administrative expenses | 3,257 | 3,257 | 3,208 | 1,575 | 1,534 |
| Selling and marketing expenses | 1,275 | 3,511 | 3,553 | 1,617 | 2,385 |
| Subtotal | 51,800 | 72,967 | 88,557 | 42,504 | 52,949 |
| Capitalised as medical treatment and safety infrastructure and leasehold improvement | 11,824 | 12,551 | 20,721 | 6,272 | 24,836 |
| | 63,624 | 85,518 | 109,278 | 48,776 | 77,785 |

**(d)** The total cash outflow for leases in the years ended 31 December 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021 are RMB77 million, RMB106 million, RMB147 million, RMB79 million and RMB81 million, respectively.

**16. INTANGIBLE ASSETS**

| | Software | Trademark | Goodwill | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost:** | | | | |
| At January 1, 2018 | 495 | – | – | 495 |
| Additions | 1,136 | – | – | 1,136 |
| At December 31, 2018 | 1,631 | – | – | 1,631 |
| Additions | 2,300 | – | – | 2,300 |
| Disposal | (198) | – | – | (198) |
| At December 31, 2019 | 3,733 | – | – | 3,733 |
| Additions | 643 | – | – | 643 |
| At December 31, 2020 | 4,376 | – | – | 4,376 |
| Acquisition of a subsidiary *(Note 30)* | – | 4,758 | 25,157 | 29,915 |
| Additions | 549 | 443 | – | 992 |
| At June 30, 2021 | 4,925 | 5,201 | 25,157 | 35,283 |

| | Software | Trademark | Goodwill | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Accumulated amortisation:** | | | | |
| At January 1, 2018 | (119) | – | – | (119) |
| Amortisation | (114) | – | – | (114) |
| At December 31, 2018 | (233) | – | – | (233) |
| Amortisation | (391) | – | – | (391) |
| Disposal | 198 | – | – | 198 |
| At December 31, 2019 | (426) | – | – | (426) |
| Amortisation | (403) | – | – | (403) |
| At December 31, 2020 | (829) | – | – | (829) |
| Amortisation | (296) | (10) | – | (306) |
| At June 30, 2021 | (1,125) | (10) | – | (1,135) |
| **Net carrying amount:** | | | | |
| At December 31, 2018 | 1,398 | – | – | 1,398 |
| At December 31, 2019 | 3,307 | – | – | 3,307 |
| At December 31, 2020 | 3,547 | – | – | 3,547 |
| At June 30, 2021 | 3,800 | 5,191 | 25,157 | 34,148 |

(a) Amortisation expenses have been charged to profit or loss and presented in the consolidated statements of comprehensive income as follows:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| General and administrative expenses | 112 | 389 | 401 | 185 | 305 |
| Selling and marketing expenses | 2 | 2 | 2 | 1 | 1 |
| | 114 | 391 | 403 | 186 | 306 |

(b) The goodwill of approximately RMB25 million arising from the acquisition of Nu/Hart Hair Solutions Limited ("NU/Hart") on May 31, 2021 has been allocated to NU/Hart for impairment testing. At June 30, 2021, management performed an impairment assessment on the goodwill. The recoverable amounts of the hair transplant business operated by NU/Hart have been assessed by an independent valuer and determined based on value-in-use ("VIU") calculation. The calculation used cash flow projections based on financial budgets covering a five-year period approved by management.

The following table sets forth each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill as at June 30, 2021:

| | |
|---|---|
| Revenue 2021 (% annual growth rate) | 6% |
| Revenue 2022 to 2025 (% annual growth rate) | 15% |
| Revenue 2026 (% annual growth rate) | 8% |
| Terminal growth rate | 2% |
| Pre-tax discount rate | 18.3% |

As at June 30, 2021, the recoverable amount of RMB32 million calculated based on VIU calculation exceeded its carrying value of RMB30 million by RMB2 million. The management has considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount to exceed their recoverable amount.

Management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets forth all possible changes to the key assumptions of the impairment test and the changes taken in isolation in the VIU calculations that would remove the remaining headroom as at June 30, 2021:

| | |
|---|---|
| Annual revenue growth rate | -0.12% |
| Discount rate | +0.24% |

The goodwill of approximately RMB25 million represents the excess of the acquisition consideration transferred over the fair value of the net identifiable assets acquired as at the acquisition date May 31, 2021. As at June 30, 2021, the recoverable amount of the CGU in NU/Hart is estimated to exceed the carrying amount of the CGU by approximately RMB2 million. Such recoverable amount of the CGU is determined based on VIU calculations. The calculation requires the Group to estimate the future cash flow expected to arise from CGU and a suitable discount rate in order to calculate the present value. As at recoverable amount valuation date, it has been only one month since the acquisition date and no significant changes in expected future cash flows generated from the CGU as well as the discount rate, the management expects that the recoverable amount would not increase significantly from the fair value of the net identifiable assets acquired as at the acquisition date. Therefore, the headroom only amounts to RMB2 million.

The directors of the Company considered there is no reasonably possible change in key parameters would cause the carrying amount of each CGU to exceed its recoverable amount.

By reference to the recoverable amount assessed by the independent valuer as at June 30, 2021, the directors of the Company determined that no impairment provision on goodwill for the six months ended June 30, 2021.

(c) The trademark of approximately RMB5 million is identified in the acquisition of Nu/Hart on May 31, 2021. As of the valuation date, the revenue of NU/Hart mainly comes from hair transplant services with of Nu/Hart trademark. Based on NU/Hart's experience, it is expected that NU/Hart will provide continuous service by using the trademark after acquisition and according to the valuation report, this trademark will make revenue contribution for 11 years and after that, the incremental economic benefit became immaterial.

## 17. FINANCIAL INSTRUMENTS BY CATEGORY

| | | As at December 31, | | | As at June 30, |
|---|---|---|---|---|---|
| | *Note* | **2018** | **2019** | **2020** | **2021** |
| **Financial assets** | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Financial assets at amortised cost: | | | | | |
| Trade receivables | *18* | 9,805 | 5,859 | 10,330 | 6,929 |
| Deposits and other receivables | *19* | 25,508 | 36,426 | 52,038 | 59,940 |
| Cash and cash equivalents | *21* | 68,476 | 89,789 | 292,856 | 453,100 |
| Restricted cash | *24(b)* | – | – | – | 149,500 |
| | | 103,789 | 132,074 | 355,224 | 669,469 |

| | | As at December 31, | | | As at June 30, |
|---|---|---|---|---|---|
| | *Note* | **2018** | **2019** | **2020** | **2021** |
| **Financial liabilities** | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Financial liabilities at amortised cost: | | | | | |
| Borrowings | *24* | – | 44,827 | 25,870 | 214,395 |
| Trade and other payables (excluding tax payables and accrued employee benefits) | *25* | 31,574 | 38,944 | 63,600 | 117,235 |
| Lease liabilities | *15* | 400,313 | 508,040 | 829,930 | 802,360 |
| | | 431,887 | 591,811 | 919,400 | 1,133,990 |

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

## 18. TRADE RECEIVABLES

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables from contracts with customers | | | | |
| – Third parties | 9,871 | 5,887 | 10,409 | 6,982 |
| Less: allowance for impairment | (66) | (28) | (79) | (53) |
| | 9,805 | 5,859 | 10,330 | 6,929 |

**(a)** The Group usually receives the payment from customers in advance. The trade receivable is the receivable from financial institution or the third party payment platforms which the customers have already settled their payment through financial institution or the third party payment platforms. The credit term given to the third party payment platforms are determined on an individual basis with normal credit period within 15 days. The ageing analysis of the trade receivables based on invoice date is as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Up to 3 months | 9,871 | 5,861 | 10,403 | 6,982 |
| 3 to 6 months | – | 12 | 6 | – |
| 6 months to 1 year | – | 14 | – | – |
| | 9,871 | 5,887 | 10,409 | 6,982 |
| Less: allowance for impairment | (66) | (28) | (79) | (53) |
| Total | 9,805 | 5,859 | 10,330 | 6,929 |

**(b) Fair values of trade receivables**

Due to the short-term nature of the current receivables, their carrying amounts are considered to be approximately the same as their fair values.

**(c) Impairment and risk exposure**

On the basis as described in Note 3.1(c), the loss allowance for trade receivables as at December 31, 2018, 2019 and 2020 and as at June 30, 2021 are determined as follows:

| | As at December 31, | | | | | | | | As at June 30, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Expected loss rate | Gross carrying amount | Loss allowance provision | Expected loss rate | Gross carrying amount | Loss allowance provision | Expected loss rate | Gross carrying amount | Loss allowance provision | Expected loss rate | Gross carrying amount | Loss allowance provision |
| | | *RMB'000* | *RMB'000* | | *RMB'000* | *RMB'000* | | *RMB'000* | *RMB'000* | | *RMB'000* | *RMB'000* |
| **Trade receivables** | | | | | | | | | | | | |
| – Financial institution | 0.13% | 5,199 | 7 | 0.14% | 4,284 | 6 | 0.22% | 8,191 | 18 | 0.22% | 5,510 | 12 |
| – Third party payment platforms | 1.26% | 4,672 | 59 | 1.37% | 1,603 | 22 | 2.75% | 2,218 | 61 | 2.60% | 346 | 9 |
| – Others | – | – | – | – | – | – | – | – | – | 2.84% | 1,126 | 32 |
| | | 9,871 | 66 | | 5,887 | 28 | | 10,409 | 79 | | 6,982 | 53 |

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Included in current assets** | | | | |
| **Prepayments** | | | | |
| Advertising and information technology services fee | 19,416 | 22,826 | 37,454 | 27,321 |
| Rental and property management fees | 6,602 | 2,982 | 5,342 | 13,559 |
| Professional and agency service fees | 5,654 | 1,038 | 2,315 | 5,939 |
| Purchase of inventory | 1,179 | 2,366 | 4,441 | 13,629 |
| Capitalisation of [**REDACTED**] expenses | – | – | – | 2,339 |
| Others | 1,100 | 2,087 | 2,473 | 1,620 |
| | 33,951 | 31,299 | 52,025 | 64,407 |
| **Deductible input VAT** | 652 | 574 | 3,367 | 7,279 |
| **Other receivables** | | | | |
| Deposits (a) | 22,468 | 28,828 | 43,606 | 54,954 |
| Proceed receivables from disposal subsidiaries | 1,800 | 150 | – | – |
| Cash advance to employees (b) | 1,120 | 590 | 479 | 2,698 |
| Amount due from related party | 36 | 110 | 133 | – |
| Others | 2,054 | 8,790 | 10,298 | 5,168 |
| | 27,478 | 38,468 | 54,516 | 62,820 |
| Less: provision for impairment of other receivables (c) | (1,970) | (2,042) | (2,478) | (2,880) |
| | 25,508 | 36,426 | 52,038 | 59,940 |
| Subtotal | 60,111 | 68,299 | 107,430 | 131,626 |
| **Included in non-current assets** | | | | |
| Prepayments for property, plant and equipment | 863 | 2,499 | 4,095 | 2,216 |
| Total | 60,974 | 70,798 | 111,525 | 133,842 |

(a) Deposits consists primarily of security deposits for rental.

(b) Cash advance to employees are unsecured, interest-free and repayable on demand.

(c) Impairment and risk exposure

On the basis as described in Note 3.1(b), the loss allowance for other financial assets at amortised cost as at December 31, 2018, 2019 and 2020 and as at June 30, 2021 are determined as follows:

| | As at December 31, | | | | | | | | | As at June 30, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Expected loss rate | Gross carrying amount | Loss allowance provision | Expected loss rate | Gross carrying amount | Loss allowance provision | Expected loss rate | Gross carrying amount | Loss allowance provision | Expected loss rate | Gross carrying amount | Loss allowance provision |
| | | *RMB'000* | *RMB'000* | | *RMB'000* | *RMB'000* | | *RMB'000* | *RMB'000* | | *RMB'000* | *RMB'000* |
| **Other receivables** | | | | | | | | | | | | |
| – Deposits | 7.73% | 22,468 | 1,737 | 6.31% | 28,828 | 1,819 | 5.14% | 43,606 | 2,242 | 5.09% | 54,954 | 2,799 |
| – Proceed receivables from disposal subsidiaries | 2.44% | 1,800 | 44 | 0.67% | 150 | 1 | – | – | – | – | – | – |
| – Cash advance to employees | 0.89% | 1,120 | 10 | 0.85% | 590 | 5 | 0.84% | 479 | 4 | 0.93% | 2,698 | 25 |
| – Amount due from related party | – | 36 | – | – | 110 | – | – | 133 | – | – | – | – |
| – Other receivables | 8.71% | 2,054 | 179 | 2.47% | 8,790 | 217 | 2.25% | 10,298 | 232 | 1.08% | 5,168 | 56 |
| | | 27,478 | 1,970 | | 38,468 | 2,042 | | 54,516 | 2,478 | | 62,820 | 2,880 |

## 20. INVENTORIES

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Pharmaceuticals and medical consumables | 9,618 | 7,355 | 11,305 | 13,788 |
| Medical hair care consumables | 729 | 956 | 8,621 | 14,493 |
| Wash and hair care products | 2,731 | 4,422 | 3,876 | 10,546 |
| Others | 1,177 | 1,753 | 3,194 | 5,669 |
| | 14,255 | 14,486 | 26,996 | 44,496 |
| Less: allowance for impairment of inventories | – | – | – | – |
| | 14,255 | 14,486 | 26,996 | 44,496 |

Inventories recognised as cost of sales and services during the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021 amounted to approximately RMB26 million, RMB40 million, RMB64 million, RMB20 million and RMB46 million, respectively.

## 21. CASH AND CASH EQUIVALENTS

| The Group | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank deposits | 68,260 | 89,705 | 292,763 | 452,898 |
| Cash on hand | 216 | 84 | 93 | 202 |
| Cash and cash equivalents | 68,476 | 89,789 | 292,856 | 453,100 |

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| RMB | 68,476 | 89,789 | 292,856 | 356,726 |
| USD | – | – | – | 94,023 |
| HKD | – | – | – | 2,351 |
| | 68,476 | 89,789 | 292,856 | 453,100 |

| The Company | As at December 31, 2020 | As at June 30, 2021 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bank deposits | – | 92,355 |
| Cash and cash equivalents | – | 92,355 |

The carrying amount of the Company's cash and cash equivalents are denominated in the following currencies:

| | As at December 31, 2020 | As at June 30, 2021 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| USD | – | 92,355 |

## 22 SHARE CAPITAL AND OTHER RESERVES

### (i) Share capital

On September 17, 2020, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. As of the date of incorporation, the initial authorized share capital of the Company was US$50,000 divided into 5,000,000,000 shares with a par value of US$0.00001 each.

(a) On September 17, 2020, Mr. Zhang Yu, Mr. Zhang Hui, Mr. Nie Lei, Mr. Geng Jiaqi, Ms. Duan Siqi, Mr. Tan Xu and Mr. Song Linfeng subscribed shares in the Company in proportion to their ultimate shareholdings in Beijing Haiyouyou respectively through their respective special purpose vehicles incorporated in the BVI. On January 29, 2021, Panmao Shanghai through Yonghe Hair Service Holdings Limited, its special purpose vehicle incorporated in BVI, CYH and Hu & Yan subscribed shares in the Company in proportion to their shareholdings in Beijing Haiyouyou respectively. The number of subscribed shares is 100,000,000 in total.

The cash considerations for the share subscriptions was fully settled on June 4, 2021 and the shares exchanges were completed on May 10, 2021.

(b) On April 26, 2021, the Company issued 6,382,979 shares with a par value of US$0.00001 each to ZY Investment Capital Ltd., representing approximately 6.0% of the shares of the Company in issue upon completion of the share issuance at a consideration of RMB89 million. Therefore, the share capital and other reserves were increased by RMB414 and RMB89 million, respectively. The consideration was fully paid on May 17, 2021 (Note 1.2(i)(f)).

| | Number of ordinary shares | Share capital | |
|---|---|---|---|
| | | *USD* | *RMB* |
| **Authorized** | | | |
| As at June 30, 2021 | 5,000,000,000 | 50,000 | 323,005 |
| Issued and fully paid | | | |
| **As at December 31, 2020** | – | – | – |
| Issue of shares (a) | 100,000,000 | 1,000 | 6,409 |
| Issue of shares to ZY Investment Capital Ltd (b) | 6,382,979 | 64 | 414 |
| Issued and fully paid | | | |
| **As at June 30, 2021** | 106,382,979 | 1,064 | 6,823 |

### (ii) Other reserves

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of year/period | 150,365 | 150,365 | 150,365 | 153,971 |
| Issue of shares to ZY Investment Capital Ltd. | – | – | – | 88,689 |
| Issue of shares | – | – | – | (7) |
| Currency translation differences | – | – | – | (947) |
| Share-based compensation | – | – | 3,606 | 92 |
| At the end of year/period | 150,365 | 150,365 | 153,971 | 241,798 |

As at January 1, 2018, the other reserves comprised the capital contribution of Beijing Haiyouyou from Beijing Xunyi, CYH, Panxin Shanghai and Xizang Yonghe of RMB4,705,882, RMB36,242,647, RMB36,242,647 and RMB9,573,530, respectively, and the remaining balance mainly the reserves is arisen from the waiver of debt of approximately RMB64 million by Beijing Xunyi in 2017.

**23. SHARE-BASED COMPENSATION**

**(a) Share award schemes**

On March 31, 2020, the shareholders of the Beijing Haiyouyou communicated the details of the share-based compensation scheme including the performance criteria with the grantees, pursuant to which, 1) shareholders (other than Beijing Xunyi) of Beijing Haiyouyou who would convert to the shareholder of the Company would transfer in total 8% of the shares of the Company to Mr. Zhang Yu and 118 eligible employees at a consideration of RMB111 million (the "8% Employee Share Plan"); 2)The Company would issue approximately 6% of the shares of the Company to Mr. Zhang Yu at a consideration of RMB88 million (the "6% Employee Share Plan"). Accordingly, March 31, 2020 is recognised as the grant date (the "Grant date") in accordance with HKFRS 2.

**8% Employee Share Plan**

On April 23, 2021, shareholders (other than Mr. Zhang Yu and Mr. Zhang Hui) of the Company (the "Transferors") transferred in total 5,000,000 and 3,000,000 shares (representing 5% and 3% of the issued shares in the Company, respectively) to Yunuo Technology Holdings Limited and Zhirui Technology Holdings Limited, respectively, under the 8% Employee Share Plan. The shares transferred was in proportion to the Transferors respective shareholding in the Company.

Under the plan, Mr. Zhang Yu and 118 eligible employees (the "eligible employees") were granted 5,000,000 and 3,000,000 shares, respectively. The shares granted to Mr. Zhang Yu would be vested when the consideration have been paid. The shares granted to eligible employees would be vested when such eligible employees complete a certain service period after the Company successfully completes an [**REDACTED**] and the Company's shares get [**REDACTED**]. In which, 30% of these shares could be vested when such eligible employees complete a two-year service period after QIPO, 30% of these shares could be vested when such eligible employees complete a three-year service period after QIPO, and the remaining 40% could vest when such eligible employees complete a four-year service period after QIPO. If an eligible employee ceases the employment by the Company within this period, the awarded shares will be repurchased by employee incentive platform, at the price that the employees initially purchased, and if applicable, plus 4.5% per annum interest.

The total consideration for the shares calculated at the price of RMB13.89 per share of approximately RMB111 million were fully paid by Mr. Zhang Yu and those eligible employees in May 2021 and the shares granted to Mr. Zhang Yu had been vested.

Yunuo Technology Holdings Limited (the "Yunuo") was incorporated in the BVI on January 15, 2021 and wholly owned by Mr. Zhang Yu. Zhirui Technology Holdings Limited (the "Zhirui") was incorporated in the BVI as a limited company on January 15, 2021 as an employee incentive platform for the eligible employees, which is controlled by the controlling shareholders.

**6% Employee Share Plan**

On April 26, 2021, the Company issued 6,382,979 shares, representing approximately 6.0% of the shares of the Company, to ZY Investment Capital Ltd. under the 6% Employee Share Plan. ZY Investment Capital Ltd. was incorporated in the BVI and wholly owned by Mr. Zhang Yu. The share issued to Mr. Zhang Yu would be vested when the consideration have been paid.

The consideration of RMB89 million in total at an exercise price of RMB13.89 each share were paid in May 2021 and the shares granted had been vested.

The Group has applied discounted cash flow method to determine the fair value of the underlying shares of RMB14.19 per share under the respective Employee Share Plan on the Grant dates. Best estimates of key assumptions, such as discount rate and projections of future performance, are required to be determined by management. Key assumptions used in determining the fair value of shares under the Employee Share Plans are as follows:

| | 8% Employee Share Plan | 6% Employee Share Plan |
|---|---|---|
| Discount rate | 13.5% | 13.5% |
| Risk-free interest rate | 3.21% | 3.21% |
| Volatility | 53% | 53% |
| Discount for lack of marketability | 10% | 10% |

***(b) Set out below are the movement in the number of awarded shares under the Employee Share Plans:***

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of year/period | – | – | – | 14,382,979 |
| Granted | – | – | 14,382,979 | – |
| Vested | – | – | – | (11,382,979) |
| At the end of year/period | – | – | 14,382,979 | 3,000,000 |
| Shares not yet granted at the end of year/period | – | – | – | – |

***(c) Expenses arising from share-based payment transactions***

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Share award schemes issued under the Employee Share Plans | – | – | 3,606 | 3,513 | 92 |

As at June 30, 2021, the accumulated expenses arising from share-based payment transactions amounting to RMB3.7 million are recognised in the share-based compensation reserve.

## 24 BORROWINGS

| The Group | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Short-term bank borrowings | | | | |
| – Unsecured | – | 44,827 | 25,870 | 94,173 |
| – Secured | – | – | – | 120,222 |
| Total | – | 44,827 | 25,870 | 214,395 |

| The Company | As at December 31, 2020 | As at June 30, 2021 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Short-term bank borrowings | | |
| – Secured | – | 120,222 |

(a) As at December 31, 2019, the bank borrowings carried interest at fixed rate ranging from 4.35% to 6.50% per annum.

As at December 31, 2020, the bank borrowings carried interest at fixed rate ranging from 3.89% to 4.35% per annum.

As at June 30, 2021, the unsecured bank borrowings carries interest at fixed rate ranging from 4.00% to 4.90% per annum, and the secured bank borrowings carries interest at fixed rate of 1.79% per annum.

(b) As at December 31, 2019 and 2020, the bank borrowings were repayable within one year and were guaranteed by Mr. Zhang Yu and his spouse Ms. Li Qian.

As at June 30, 2021, the bank borrowings were repayable within one year and bank borrowings of RMB120.2 million were secured by restricted bank deposits with carrying amount of approximately RMB149.5 million.

(c) The fair value of borrowings approximated their carrying amounts as at December 31, 2019 and 2020 and as at June 30, 2021 due to the short maturities of these borrowings.

(d) The carrying amounts of the borrowings are denominated in the following currencies:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| RMB | – | 44,827 | 25,870 | 94,173 |
| USD | – | – | – | 120,222 |
| | – | 44,827 | 25,870 | 214,395 |

## 25. TRADE AND OTHER PAYABLES

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payable | 16,574 | 22,545 | 44,676 | 66,645 |
| Accrued employee benefits | 26,856 | 32,226 | 71,077 | 74,962 |
| Refund liabilities (i) | 3,935 | 5,024 | 7,581 | 11,253 |
| Accrued expenses | 4,738 | 2,283 | 4,219 | 6,074 |
| Tax payable | 4,039 | 5,928 | 3,555 | 19,809 |
| Security deposit | 3,079 | 3,178 | 3,135 | 4,467 |
| Amount due to related party *(Note 31(c))* | 785 | 749 | 30 | 25,886 |
| Others | 2,463 | 5,165 | 3,959 | 2,910 |
| | 62,469 | 77,098 | 138,232 | 212,006 |

(i) The Group has estimated the refund liabilities which is based on the Group's past experience with customers (Note 2.23).

(ii) The carrying amounts of trade and other payables are considered to be approximated to their fair values, due to their short-term nature.

(iii) Aging analysis of the trade payables based on invoice date at the end of each reporting period are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Up to 3 months | 14,649 | 16,579 | 37,948 | 57,512 |
| 3 to 6 months | 1,322 | 4,796 | 3,851 | 3,654 |
| 6 months to 1 year | 400 | 845 | 2,344 | 4,307 |
| 1 to 2 years | 138 | 260 | 408 | 1,172 |
| Over 2 years | 65 | 65 | 125 | – |
| | 16,574 | 22,545 | 44,676 | 66,645 |

## 26. CONTRACT LIABILITIES

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Contract liabilities** | | | | |
| Hair transplant | 6,223 | 8,375 | 11,196 | 11,850 |
| Medical hair care | – | 4,054 | 97,706 | 159,749 |
| Others | 10,669 | 10,925 | 11,521 | 10,193 |
| | 16,892 | 23,354 | 120,423 | 181,792 |

The Group classifies these contract liabilities as current because the Group does not have an unconditional right to defer for at least 12 months after the reporting period.

**(i) Significant changes in contract liabilities**

Contract liabilities for medical hair care contracts have increased as a result of business expansion.

**(ii) Revenue recognised in relation to contract liabilities**

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Hair transplant | 2,221 | 3,083 | 3,075 | 2,711 | 3,935 |
| Medical hair care | – | – | 3,285 | 2,563 | 64,902 |
| Others | 3,976 | 4,880 | 3,179 | 1,211 | 2,434 |
| | 6,197 | 7,963 | 9,539 | 6,485 | 71,271 |

**(iii) Unsatisfied contracts**

Management expects that the amount of approximately RMB8 million, RMB12 million, RMB61 million and RMB135 million of the transaction to unsatisfied obligations as of December 31, 2018, 2019 and 2020 and as of June 30, 2021 will be recognised as revenue within next one year. The remaining will be recognised in more than one year.

## 27. DEFERRED INCOME TAX

(a) The analysis of deferred income tax assets is as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred income tax assets: | | | | |
| – Deferred income tax assets to be recovered after more than 12 months | 10,469 | 17,022 | 27,115 | 29,978 |
| – Deferred income tax assets to be recovered within 12 months | 2,578 | 4,345 | 2,076 | 2,953 |
| | 13,047 | 21,367 | 29,191 | 32,931 |
| Set-off of deferred income tax liabilities pursuant to set-off provisions | (530) | (514) | (179) | (196) |
| Net deferred tax assets | 12,517 | 20,853 | 29,012 | 32,735 |
| Deferred income liabilities: | | | | |
| – Deferred income tax liabilities to be settled after more than 12 months | 671 | 247 | 67 | 786 |
| – Deferred income tax liabilities to be settled within 12 months | 653 | 460 | 331 | 374 |
| | 1,324 | 707 | 398 | 1,160 |
| Set-off of deferred income tax assets pursuant to set-off provisions | (530) | (514) | (179) | (196) |
| Net deferred income tax liabilities | 794 | 193 | 219 | 964 |

(b) The net movement on the deferred income tax account is as follows:

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of the year/period | 629 | 11,723 | 20,660 | 28,793 |
| Credited to income tax expense *(Note 12)* | 11,094 | 8,937 | 8,133 | 3,763 |
| Acquisition of a subsidiary *(Note 30)* | – | – | – | (785) |
| At end of the year/period | 11,723 | 20,660 | 28,793 | 31,771 |

(c) The gross movements in deferred income tax assets and deferred income tax liabilities during the Track Record Period are as follows:

(i) Deferred income tax assets:

| | Tax losses | Leases | Refund liabilities | Provision for impairment of assets | Intra-group unrealised profit or loss | Share-based compensation | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at January 1, 2018** | 2,371 | – | 675 | 88 | 9 | – | 3,143 |
| Credited to profit or loss | 5,714 | 3,475 | 282 | 281 | 152 | – | 9,904 |
| **As at December 31, 2018** | 8,085 | 3,475 | 957 | 369 | 161 | – | 13,047 |
| Credited to profit or loss | 3,452 | 4,426 | 299 | 6 | 137 | – | 8,320 |
| **As at December 31, 2019** | 11,537 | 7,901 | 1,256 | 375 | 298 | – | 21,367 |
| Credited to profit or loss | 387 | 6,036 | 639 | 119 | 102 | 541 | 7,824 |
| **As at December 31, 2020** | 11,924 | 13,937 | 1,895 | 494 | 400 | 541 | 29,191 |
| (Debited)/credited to profit or loss | (393) | 3,497 | 447 | 219 | (44) | 14 | 3,740 |
| **As at June 30, 2021** | 11,531 | 17,434 | 2,342 | 713 | 356 | 555 | 32,931 |

(ii) Deferred income tax liabilities:

| | Leases | Intangible assets | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at January 1, 2018** | 2,514 | – | 2,514 |
| Credited to profit or loss | (1,190) | – | (1,190) |
| **As at December 31, 2018** | 1,324 | – | 1,324 |
| Credited to profit or loss | (617) | – | (617) |
| **As at December 31, 2019** | 707 | – | 707 |
| Credited to profit or loss | (309) | – | (309) |
| **As at December 31, 2020** | 398 | – | 398 |
| Credited to profit or loss | (23) | – | (23) |
| Acquisition of a subsidiary *(Note 30)* | – | 785 | 785 |
| **As at June 30, 2021** | 375 | 785 | 1,160 |

## 28. CASH FLOW INFORMATION

### (a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations for the Track Record Period:

| | Note | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Profit before income tax | | 111,289 | 71,523 | 230,914 | 93,541 | 88,875 |
| Adjustments for: | | | | | | |
| Depreciation and amortisation | *9* | 84,449 | 129,705 | 159,125 | 74,478 | 97,067 |
| Share-based compensation | *10* | – | – | 3,606 | 3,513 | 92 |
| Losses on disposal of property, plant and equipment | *8* | 5,704 | 1,849 | 3,984 | 3,597 | 451 |
| Finance costs | *11* | 17,808 | 26,728 | 36,288 | 16,007 | 22,678 |
| Finance income | *11* | (139) | (210) | (941) | (218) | (2,408) |
| Fair value change of financial assets | | (333) | – | (131) | – | – |
| Gains on disposal of subsidiaries | *8* | (2,400) | (1,100) | – | – | – |
| [**REDACTED**] expenses | | – | – | 3,827 | – | 7,545 |
| Auditors' remuneration | | – | – | 1,200 | – | 1,056 |
| Net impairment losses on financial assets | | 1,633 | 34 | 487 | 279 | 376 |
| Change in working capital: | | | | | | |
| – Inventories | | (8,763) | (231) | (12,510) | (3,198) | (17,475) |
| – Trade and other receivables, prepayments and deposits | | 8,583 | (7,562) | (45,835) | (34,694) | (16,361) |
| – Trade and other payables | | (4,870) | 11,808 | 64,220 | 34,635 | 47,609 |
| – Contract liabilities | | (131) | 6,462 | 97,069 | 25,879 | 61,145 |
| Cash generated from operations | | 212,830 | 239,006 | 541,303 | 213,819 | 290,650 |

### (b) Non-cash financing activities

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Addition of right-of-use assets | 167,778 | 190,381 | 436,853 | 228,747 | 129,692 |

**(c) Net debt reconciliation**

| | Note | As at December 31, 2018 | 2019 | 2020 | As at June 30, 2021 |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash and cash equivalents | *21* | 68,476 | 89,789 | 292,856 | 453,100 |
| Borrowings | *24* | – | (44,827) | (25,870) | (214,395) |
| Lease liabilities | *15* | (400,313) | (508,040) | (829,930) | (802,360) |
| Net debt | | (331,837) | (463,078) | (562,944) | (563,655) |
| Cash and cash equivalents | *21* | 68,476 | 89,789 | 292,856 | 453,100 |
| Gross debt | | (400,313) | (552,867) | (855,800) | (1,016,755) |
| Net debt | | (331,837) | (463,078) | (562,944) | (563,655) |

| | Liabilities from financing activities | | Other assets | |
|---|---|---|---|---|
| | Leases | Borrowings | Cash and cash equivalents | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Net debt as at January 1, 2018** | (284,429) | – | 46,387 | (238,042) |
| Cash flows | 69,689 | – | 22,089 | 91,778 |
| New leases | (167,778) | – | – | (167,778) |
| Termination of lease contracts | 13 | – | – | 13 |
| Finance costs recognised | (17,808) | – | – | (17,808) |
| **Net debt as at December 31, 2018** | (400,313) | – | 68,476 | (331,837) |
| Cash flows | 99,367 | (44,827) | 21,313 | 75,853 |
| New leases | (190,381) | – | – | (190,381) |
| Termination of lease contracts | 8,740 | – | – | 8,740 |
| Finance costs recognised | (25,453) | – | – | (25,453) |
| **Net debt as at December 31, 2019** | (508,040) | (44,827) | 89,789 | (463,078) |
| Cash flows | 132,289 | 18,957 | 203,067 | 354,313 |
| New leases | (436,853) | – | – | (436,853) |
| Termination of lease contracts | 11,907 | – | – | 11,907 |
| Finance costs recognised | (34,800) | – | – | (34,800) |
| Rental reduction or waived due to COVID-19 | 5,567 | – | – | 5,567 |
| **Net debt as at December 31, 2020** | (829,930) | (25,870) | 292,856 | (562,944) |
| Cash flows | 77,554 | (186,815) | 159,481 | 50,220 |
| New leases | (129,692) | – | – | (129,692) |
| Termination of lease contracts | 15,161 | – | – | 15,161 |
| Lease modification | 86,075 | – | – | 86,075 |
| Finance costs recognised | (21,528) | – | – | (21,528) |
| Exchange (losses)/gains | – | (1,710) | 763 | (947) |
| **Net debt as at June 30, 2021** | 802,360 | (214,395) | 453,100 | (563,655) |

## 29. COMMITMENTS

### (a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

| | Year ended December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Medical treatment and safety infrastructure and leasehold improvement | 11,672 | 13,099 | 72,346 | 25,863 |
| Property, plant and equipment | 2 | 151 | 1,112 | 125 |
| Intangible assets | 470 | – | – | – |
| | 12,144 | 13,250 | 73,458 | 25,988 |

### (b) Lease commitments

The Group's future aggregate minimum lease payments due under short-term leases (which are exempted from recognising the related right-of-use assets and lease liabilities) are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 8,113 | 8,248 | 3,774 | 5,799 |

## 30. BUSINESS COMBINATION

### (a) Summary of acquisition

On May 31, 2021, the Group acquired 100% shares of NU/Hart, a renowned Hong Kong hair transplant service provider, with RMB30,000,000 as cash consideration, from Zhuhai Xinsiyu Management Service Co., Ltd. ("Xinsiyu"), a wholly-owned by Zhuhai Siyu Industrial Development Company Limited, which is in turn owned by Shenzhen Zhongxiu Xinsheng Investment Center (Limited Partners), a limited partnership managed by Citron PE Holdings Limited ("CPE").

The goodwill of approximately RMB25 million arising from the acquisition is attributable to the synergy of business combination arising from the Mainland China and Hong Kong. None of the goodwill recognized is expected to be deductible for income tax purpose.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| **Purchase consideration (refer to (b) below):** | *RMB'000* |
|---|---|
| Cash paid | 6,000 |
| Consideration payables *(i)* | 24,000 |
| Total purchase consideration | 30,000 |

(i) According to the purchase agreement, the remaining consideration will be paid from the expiration of six months after the completion day May 31, 2021 and until the expiration of eighteen months after May 31, 2021.

The assets and liabilities recognised as a result of the acquisition are as follows:

| | *RMB'000* |
|---|---|
| Cash and cash equivalents | 2,198 |
| Prepayments, deposits and other receivables | 729 |
| Inventories | 25 |
| Property, plant and equipment | 262 |
| Intangible assets | 4,758 |
| Trade and other payables | (2,120) |
| Contract liabilities | (224) |
| Deferred income tax liabilities | (785) |
| Net identifiable assets acquired | 4,843 |
| Goodwill | 25,157 |

**(b) Purchase consideration – cash outflow**

| | *RMB'000* |
|---|---|
| Outflow of cash to acquire subsidiary, net of cash acquired | |
| Cash consideration | 6,000 |
| Less: Cash and cash equivalents | (2,198) |
| Net outflow of cash – investing activities | 3,802 |

NU/Hart contributed revenue of RMB0.75 million and net profit of RMB0.02 million to the Group for the period from the acquisition date to June 30, 2021. If the acquisition had occurred on 1 January 2021, consolidated pro-forma revenue and profit for the six months ended June 30, 2021 of the Group would have been RMB1,060 million and RMB43 million, respectively.

## 31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are under common control or joint control in the controlling shareholder's families. Members of key management and their close family member of the Group are also considered as related parties.

Same as those disclosed elsewhere in the Historical Financial Information, the following significant transactions were carried out between the Group and its related parties during the Track Record Period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties. The Group's pricing policies of the transactions with related parties are determined on the basis of mutual negotiations between the relevant parties.

**(a) Names and relationships with related parties**

| Name of related parties | Relationship with the Company |
|---|---|
| Zhang Yu | Director of the Company |
| Zhang Hui | Director of the Company |
| Yonghe Yuhui | Former shareholder of Beijing Haiyouyou |
| Beijing Xunyi | Former shareholder of Beijing Haiyouyou |
| Panxin Shanghai | Former shareholder of Beijing Haiyouyou |
| Xinsiyu | A company is indirectly owned by a limited partnership managed by CPE, which is the shareholder of the general partner of Paomao Shanghai |

**(b) Significant transactions with related parties**

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| *Purchase of training services* | | | | | |
| Panxin Shanghai | 133 | – | – | – | – |
| *Acquisition of a subsidiary* | | | | | |
| Xinsiyu | – | – | – | – | 30,000 |

**(c) Year ended balances with related parties**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Amount due from related party – non-trade** | | | | |
| Yonghe Yuhui | – | 74 | 97 | – |
| Beijing Xunyi | 36 | 36 | 36 | – |
| | 36 | 110 | 133 | – |
| **Amount due to related parties – non-trade** | | | | |
| Mr. Zhang Hui | 785 | 749 | 30 | – |
| Mr. Zhang Yu | – | – | – | 27 |
| Xinsiyu | – | – | – | 25,859 |

Save for the outstanding balance with Xinsiyu in relation to the acquisition of Nu/Hart, which was non-trade in nature, the Group plan to settle the outstanding balances with other related parties, which were non-trade in nature, before [**REDACTED**]. The outstanding balance with Xinsiyu is expected to be settled upon [**REDACTED**] using [**REDACTED**] from the [**REDACTED**].

**(d) Guarantees**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank borrowings guaranteed by Mr. Zhang Yu *(Note 24)* | – | 44,827 | 25,870 | – |

**(e) Key management personnel compensation**

Key management includes director and senior officers. The compensations paid or payable to key management for employee services are shown below:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Wages, salaries and bonuses | 1,823 | 3,217 | 5,086 | 2,017 | 2,464 |
| Pension costs – defined contribution plans | 183 | 191 | 36 | 36 | 144 |
| Other social security costs | 116 | 139 | 140 | 42 | 89 |
| Housing benefits | 116 | 128 | 171 | 77 | 99 |
| Share-based compensation | – | – | 3,484 | 3,473 | 11 |
| | 2,238 | 3,675 | 8,917 | 5,645 | 2,807 |

## 32. BENEFITS AND INTERESTS OF DIRECTORS

As the date of the report, the following directors were appointed:

**Executive Directors**
Mr. Zhang Yu *(Note (a)(i))*
Mr. Zhang Hui *(Note (a)(i))*

**Non-executive Directors**
Mr. Zhai Feng *(Note (a)(ii))*
Mr. Geng Jiaqi *(Note (a)(ii))*

**Independent Non-executive Directors**
Mr. Li Xiaopei *(Note (a)(iii))*
Mr. Chan Peng Kuan *(Note (a)(iii))*
*Ms. Wang Jiping (Note (a)(iii))*

**(a) Directors' emoluments**

The directors received emoluments from the Group (in their role as senior management and employee before their appointment as directors respectively) for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021 were set out below:

| | *Note* | Salaries | Discretionary bonuses | Social security costs, housing benefits and other employee benefits | Share-based compensation expenses | Total |
|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **For the year ended December 31, 2018** | | | | | | |
| **Executive Directors** | | | | | | |
| Mr. Zhang Yu | *(i)* | 455 | – | 125 | – | 580 |
| Mr. Zhang Hui | *(i)* | 429 | 36 | 103 | – | 568 |
| | | 884 | 36 | 228 | – | 1,148 |

| | Note | Salaries | Discretionary bonuses | Social security costs, housing benefits and other employee benefits | Share-based compensation expenses | Total |
|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **For the year ended December 31, 2019** | | | | | | |
| **Executive Directors** | | | | | | |
| Mr. Zhang Yu | *(i)* | 900 | – | 123 | – | 1,023 |
| Mr. Zhang Hui | *(i)* | 422 | 226 | 98 | – | 746 |
| | | 1,322 | 226 | 221 | – | 1,769 |
| **For the year ended December 31, 2020** | | | | | | |
| **Executive Directors** | | | | | | |
| Mr. Zhang Yu | *(i)* | 1,200 | 251 | 69 | 3,467 | 4,987 |
| Mr. Zhang Hui | *(i)* | 422 | 226 | 63 | 5 | 716 |
| | | 1,622 | 477 | 132 | 3,472 | 5,703 |
| **For the six months ended June 30, 2020 (Unaudited)** | | | | | | |
| **Executive Directors** | | | | | | |
| Mr. Zhang Yu | *(i)* | 600 | – | 32 | 3,467 | 4,099 |
| Mr. Zhang Hui | *(i)* | 211 | 53 | 25 | 2 | 291 |
| | | 811 | 53 | 57 | 3,469 | 4,390 |
| **For the six months ended June 30, 2021** | | | | | | |
| **Executive Directors** | | | | | | |
| Mr. Zhang Yu | *(i)* | 630 | – | 63 | – | 693 |
| Mr. Zhang Hui | *(i)* | 211 | 53 | 63 | 3 | 330 |
| | | 841 | 53 | 126 | 3 | 1,023 |

(i) Mr. Zhang Yu and Mr. Zhang Hui were appointed as the Group's directors on September 17, 2020 and re-designated as executive directors on June 1, 2021.

(ii) Mr. Zhai Feng and Mr. Geng Jiaqi were appointed as the Group's directors on September 17, 2020 and re-designated as non-executive directors on June 1, 2021. The emoluments of the non-executive director Mr. Zhai Feng and Mr. Geng Jiaqi in relation to their services rendered for the Group for the Track Record Period were not borne by the Group. Their emoluments were not allocated to the Group as the management of the Company considers there is no reasonable basis of allocation.

(iii) Ms. Wang Jiping, Mr. Chan Peng Kuan and Mr. Li Xiaopei were appointed as the Group's independent non-executive directors on June 1, 2021. During the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30,2020 and 2021, the independent non-executive directors did not receive any remuneration.

**(b) Directors' retirement and termination benefits**

No retirement or termination benefits have been paid to the Company's directors for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021.

**(c) Consideration provided to third parties for making available directors' services**

No consideration was provided to third parties for making available directors' services during the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021.

**(d) Information about loans, quasi-loans or other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors**

No loans, quasi-loans or other dealings were entered into by the Company in favor of directors, controlled bodies corporate by and connected entities with such directors during the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021.

**(e) Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021.

**33. CONTINGENCIES**

The Group has been involved in some lawsuits arising in the ordinary course of business. Provision has been made for the probable losses to the Group on those claims when the management can reasonably estimate the outcome of the lawsuits taking into account of the legal advice. No provision has been made for those pending lawsuits where the management considered that the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable.

**34. DIVIDEND**

No dividend has been paid or declared by the Company or the companies now comprising the Group during each of the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021.

**35. EVENTS OCCURRING AFTER THE REPORTING PERIOD**

On November 12, 2021, the shareholders of the Company resolved to conduct a share split (the "Share Split") on a one-for-four basis upon [**REDACTED**], and the nominal value of the Shares will be changed from US$0.00001 each to US$0.0000025 each. Immediately after such Share Split, the issued share capital of the Company will be [**REDACTED**] shares.

On November 12, 2021, the Company declared a cash dividend of RMB70 million, being approximately RMB0.658 per Share.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to June 30, 2021 and up to the date of this report.

*The information set out in Appendix II does not form part of the "Accountant's Report" from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this document and the "Accountant's Report" set out in Appendix I to this document.*

## A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [**REDACTED**] on the consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2021 as if the [**REDACTED**] had taken place on June 30, 2021, assuming the [**REDACTED**] is not exercised.

This unaudited pro forma statement of adjusted net tangible assets 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 [**REDACTED**] been completed as of June 30, 2021 or at any future dates.

| | **Unadjusted audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2021** | **Estimated net [REDACTED] from the [REDACTED]** | **Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at June 30, 2021** | **Unaudited pro forma adjusted consolidated net tangible assets per Share as at June 30, 2021** | |
|---|---|---|---|---|---|
| | *RMB'000 (Note 1)* | *RMB'000 (Note 2)* | *RMB'000* | *RMB (Note 3)* | *HK$ (Note 4)* |
| Based on an [**REDACTED**] of HK$[**REDACTED**] per Share | 500,185 | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |
| Based on an [**REDACTED**] of HK$[**REDACTED**] per Share | 500,185 | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |

*Notes:*

(1) The unadjusted audited consolidated net tangible assets of the Group attributable to owners of the Company as at June 30, 2021 is extracted from the Accountant's Report as set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at June 30, 2021 of RMB534,333,000 with an adjustment for the intangible assets attributable to owners of the Company as at June 30, 2021 of RMB34,148,000.

(2) The estimated net [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] Shares at the indicative [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**] per Share, respectively, after deduction of the estimated [**REDACTED**] fees and other related expenses payable by the Company and takes no account of any shares which may be issued upon the exercise of the [**REDACTED**].

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] Shares were in issue immediately upon completion of the Share Split and the [**REDACTED**], which is assumed to be on June 30, 2021 for the purpose of the pro forma financial information, and takes no account of any Shares which may be issued upon exercise of the [**REDACTED**].

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.8210. No representation is made that Renminbi has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2021.

(5) The unaudited pro forma adjusted consolidated net tangible assets of the Group have not taken into account the cash dividend of RMB70,000,000 approved by the Board and Shareholders on November 12, 2021. The unaudited pro forma adjusted consolidated net tangible assets per Share would have been HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) and HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) per Share based on the indicative [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**], being the low-end and high-end, respectively, after taking into account the declaration and payment of the cash dividend.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

## SUMMARY OF THE CONSTITUTION OF THE COMPANY

### 1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available on display at the address specified in Appendix [●] in the section headed "Documents Delivered to the Registrar of Companies and Available on Display".

### 2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●] and include provisions to the following effect:

#### *2.1 Classes of Shares*

The share capital of the Company consists of ordinary shares. The authorized share capital of the Company at the date of adoption of the Articles is [●] divided into [●] shares of [●] each.

#### *2.2 Directors*

*(a) Power to allot and issue Shares*

Subject to the provisions of the Cayman Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

*(b) Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred

upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

*(c) Compensation or payment for loss of office*

Payment to any 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 entitled) must first be approved by the Company in general meeting.

*(d) Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

*(e) Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

*(f) Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his close associates of any security or indemnity 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 any of his close associates has himself/themselves assumed responsibility in whole or in part and 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 any of his close associates 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:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both 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 any of his close associates, as such 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 any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

*(g) Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, 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 amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. 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.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

*(h) Retirement, appointment and removal*

The number of Directors shall not be less than two.

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director).

The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place

he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors who are to retire by rotation at such meeting.

No person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors. The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by a notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to,

but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

*(i) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

*(j) Proceedings of the Board*

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. 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.

### *2.3 Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

### *2.4 Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Act, be varied 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 meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

### *2.5 Alteration of capital*

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall

have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares ratably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing 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 canceled subject to the provisions of the Cayman Companies Act; and

(c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Companies Act.

### *2.6 Special resolution -majority required*

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution signed by all members for the time being entitled to receive notice of and to attend and vote at

general meetings (or being corporations by their duly appointed representatives), and any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last member to sign.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean 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, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

***2.7 Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where 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.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

### *2.8 Annual general meetings and extraordinary general meetings*

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

Extraordinary general meetings may be convened on the requisition of two or more shareholders (or any one member which is a recognized clearing house (or its nominee(s)) holding, 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.

### *2.9 Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Act or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a statement of financial position as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided

in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

### *2.10 Notice of meetings and business to be conducted thereat*

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 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 shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) 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, being a majority together holding not less than 95% in nominal value of the shares giving that right.

### *2.11 Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may, in its absolute discretion, and without assigning any reason, refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favor of the Company; and

(f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (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).

### *2.12 Power of the Company to purchase its own shares*

The Company is empowered by the Cayman Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase. The holder of the shares being purchased shall be bound to deliver up to the Company at its principal place of business in Hong

Kong or such other place as the Directors shall specify the certificate(s) thereof, if any, for cancellation and thereupon the Company shall pay to him the purchase or redemption monies in respect thereof.

### *2.13 Power of any subsidiary of the Company to own shares*

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

### *2.14 Dividends and other methods of distribution*

Subject to the Cayman Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company 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 Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the

foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. 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.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend may be paid or declared, the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

### *2.15 Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the

form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

### *2.16 Calls on shares and forfeiture of shares*

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid

serve a notice on the bolder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

### *2.17 Inspection of register of members*

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (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).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

### *2.18 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, but the absence of a quorum shall not preclude the appointment of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

### *2.19 Rights of minorities in relation to fraud or oppression*

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

### *2.20 Procedure on liquidation*

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be 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 of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Act, shall think fit, but so

that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

*2.21 Untraceable members*

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

## SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

### 1 Introduction

The Cayman Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### 2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 September 2020 under the Cayman Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is 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 size of its authorized share capital.

### 3 Share Capital

The Cayman Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The Cayman Companies Act provides that the share premium account may be applied by a 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:

(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) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Act);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

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.

The Cayman Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized 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 shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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 member of the company holding shares. 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.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**4 Dividends and Distributions**

With the exception of section 34 of the Cayman Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

**5 Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in Foss v. Harbottle (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

**6 Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands 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 into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands 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.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**7 Disposal of Assets**

The Cayman Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

## 8 Accounting and Auditing Requirements

The Cayman Companies Act requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

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.

## 9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Act for an exempted company to make any returns of members to the Registrar of Companies of 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.

## 10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Act 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.

## 11 Special Resolutions

The Cayman Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

## 12 Subsidiary Owning Shares in Parent

The Cayman Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

## 13 Mergers and Consolidations

The Cayman Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

## 14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is 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 shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

## 15 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% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand 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 shareholders.

## 16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## 17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

## 18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

## 19 Taxation

Pursuant to section 6 of the Tax Concessions Act (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

    (i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (2018 Revision).

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 certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

## 20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

## 21 Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 ("**ES Law**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, if an exempted company incorporated in the Cayman Islands is tax resident outside the Cayman Islands, it will not be required to satisfy the economic substance test set out in the ES Law.

## 22 General

Campbells, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Act, is available on display as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR GROUP

### 1. Incorporation of Our Company

We were incorporated in the Cayman Islands on September 17, 2020 under the Companies Law as an exempted company with limited liability. Accordingly, our corporate structure and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of certain aspects of the Cayman Islands company law and a summary of certain provisions of our Articles of Associations are set out in the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law" in Appendix III to this document.

Our registered place of business in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. We were registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on May 11, 2021. Ms. Kam Mei Ha Wendy (甘美霞) and Ms. Leung Ching Ching (梁晶晶) of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong have been appointed as our authorized representatives for the acceptance of service of process and notices in Hong Kong.

### 2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company was authorized to issue 5,000,000,000 Shares of US$0.00001 each. On November 12, 2021, the shareholders of the Company resolved to conduct share split on a one-for-four basis, and the nominal value of the Shares changed from US$0.00001 each to US$0.0000025 each. Immediately after such share split, the authorized share capital of the Company is 20,000,000,000 Shares of US$0.0000025 each.

The following sets out the changes in the share capital of our Company during the two years immediately preceding the date of this document:

On September 17, 2020, Sertus Nominees (Cayman) Limited transferred the one share of our Company to ZhangYu Hair Service Holdings Limited at par value.

On February 1, 2021, Hu & Yan Healthcare Investment Limited transferred 5,350,000 shares to Ever Horizon Developments Limited for nil consideration.

On April 22, 2021, ZhangYu Hair Service Holdings Limited transferred 34,000,000 shares to ZY Investment Capital Ltd.

On April 22, 2021, ZhangHui Hair Service Holdings Limited transferred 6,000,000 shares to ZH Investment Capital Ltd.

On April 23, 2021, NieLei Hair Service Holdings Limited transferred 90,834 shares to Yunuo Technology Holdings Limited for a consideration of RMB1,261,268.

On April 23, 2021, NieLei Hair Service Holdings Limited transferred 54,500 shares to Zhirui Technology Holdings Limited for a consideration of RMB756,756.

On April 23, 2021, JiaQi Hair Service Holdings Limited transferred 15,833 shares to Yunuo Technology Holdings Limited for a consideration of RMB219,848.

On April 23, 2021, JiaQi Hair Service Holdings Limited transferred 9,500 shares to Zhirui Technology Holdings Limited for a consideration of RMB131,911.

On April 23, 2021, SiQi Hair Service Holdings Limited transferred 15,833 shares to Yunuo Technology Holdings Limited for a consideration of RMB219,848.

On April 23, 2021, SiQi Hair Service Holdings Limited transferred 9,500 shares to Zhirui Technology Holdings Limited for a consideration of RMB131,911.

On April 23, 2021, TanXu Hair Service Holdings Limited transferred 7,500 shares to Yunuo Technology Holdings Limited for a consideration of RMB104,141.

On April 23, 2021, TanXu Hair Service Holdings Limited transferred 4,500 shares to Zhirui Technology Holdings Limited for a consideration of RMB62,484.

On April 23, 2021, LinFeng Hair Service Holdings Limited transferred 7,500 shares to Yunuo Technology Holdings Limited for a consideration of RMB104,141.

On April 23, 2021, LinFeng Hair Service Holdings Limited transferred 4,500 shares to Zhirui Technology Holdings Limited for a consideration of RMB62,484.

On April 23, 2021, Yonghe Hair Service Holdings Limited transferred 2,208,333 shares to Yunuo Technology Holdings Limited for a consideration of RMB30,663,624.

On April 23, 2021, Yonghe Hair Service Holdings Limited transferred 1,325,000 shares to Zhirui Technology Holdings Limited for a consideration of RMB18,398,177.

On April 23, 2021, CYH Cosmetic Medical Holdings Limited transferred 2,208,333 shares to Yunuo Technology Holdings Limited for a consideration of RMB30,663,624.

On April 23, 2021, CYH Cosmetic Medical Holdings Limited transferred 1,325,000 shares to Zhirui Technology Holdings Limited for a consideration of RMB18,398,177.

On April 23, 2021, Ever Horizon Developments Limited transferred 445,834 shares to Yunuo Technology Holdings Limited for a consideration of RMB6,190,591.

On April 23, 2021, Ever Horizon Developments Limited transferred 267,500 shares to Zhirui Technology Holdings Limited for a consideration of RMB3,714,350.

The following table sets out the details of all the issuance of our Shares taken place within two years immediately preceding the date of this document:

| Date of Shares issuance | Name of Shareholders | Number of Shares | Consideration Paid |
|---|---|---|---|
| September 17, 2020 | Sertus Nominees (Cayman) Limited | 1 | par value |
| September 17, 2020 | ZhangYu Hair Service Holdings Limited | 33,999,999 | par value |
| September 17, 2020 | ZhangHui Hair Service Holdings Limited | 6,000,000 | par value |
| September 17, 2020 | NieLei Hair Service Holdings Limited | 1,090,000 | par value |
| September 17, 2020 | JiaQi Hair Service Holdings Limited | 190,000 | par value |
| September 17, 2020 | SiQi Hair Service Holdings Limited | 190,000 | par value |
| September 17, 2020 | TanXu Hair Service Holdings Limited | 90,000 | par value |
| September 17, 2020 | LinFeng Hair Service Holdings Limited | 90,000 | par value |
| January 29, 2021 | Yonghe Hair Service Holdings Limited | 26,500,000 | RMB70,235,414.5 |
| January 29, 2021 | CYH Cosmetic Medical Holdings Limited | 26,500,000 | Equity interests in Beijing Haiyouyou through share exchange |
| January 29, 2021 | Hu & Yan Healthcare Investment Limited | 5,350,000 | Equity interests in Beijing Haiyouyou through share exchange |
| April 26, 2021 | ZY Investment Capital Ltd | 6,382,979 | RMB88,630,000 |

Immediately following completion of the [**REDACTED**] (without taking into account any Share which may be issued upon any exercise of the [**REDACTED**], our issued share capital will be US$1329.78729 divided into [**REDACTED**] Shares, all fully paid or credited as fully paid.

Save as disclosed above, there has been no alteration in our share capital within the two years immediately preceding the date of this document.

## 3. Changes in the Share Capital of Our Subsidiary

The list of our major subsidiaries is set out under the financial statements in the Accountant's Report as included in Appendix I to this Document. The following alteration in the share capital of our subsidiary has taken place within the two years immediately preceding the date of this document:

***Beijing Haiyouyou***

In June, 2020, Beijing Haiyouyou passed a shareholders' resolution for Tianjin Yonghe Yuhui to transfer 5.349% equity interests in Beijing Haiyouyou to Hu & Yan Healthcare Investment Limited for a consideration of RMB31,625,000.

On May 10, 2021, Beijing Haiyouyou passed a shareholders' resolution for Beijing Xunyi, CYH, Panmao Shanghai, Hu&Yan and Tianjin Yonghe Yuhui to transfer 40%, 26.5%, 26.5%, 5.349% and 1.651% equity interests in Beijing Haiyouyou, respectively, to Yonghe Medical for the consideration of RMB106,015,720 or equivalent, RMB70,235,414.5 or equivalent USD, 26,500,000 Shares of our Company, 5,350,000 Shares of our Company and RMB4,375,798.8 or equivalent USD, respectively.

***Yonghe Investment***

On November 27, 2020, Yonghe Investment passed a shareholders' resolution to increase its registered capital from RMB10,000,000 to RMB14,285,714.3. The increase of RMB4,285,714.3 is contributed by Beijing Xunyi.

***Beijing Maoduoduo***

On October 22, 2020, Beijing Maoduoduo passed a shareholders' resolution for Yonghe Investment to transfer 100% equity interests in Beijing Maoduoduo to Beijing Yunyihui for a consideration of RMB5 million.

***Beijing Yunmao***

On November 3, 2020, Beijing Yunmao passed a shareholders' resolution for Yonghe Investment to transfer 100% equity interests in Beijing Yunmao to Yonghe Research Laboratory for a consideration of RMB5 million.

***Yonghe Research Laboratory***

On December 7, 2020, Yonghe Research Laboratory passed a shareholders' resolution for Yonghe Investment to transfer 100% equity interests in Yonghe Research Laboratory to Beijing Haiyouyou for a consideration of RMB500,000.

***Jinan Yongxin Medical Technology Company Limited***

On March 17, 2021, Jinan Yongxin Medical Technology Company Limited passed a shareholders' resolution for Yonghe Investment to transfer 100% equity interests in Jinan Yongxin to Yonghe Research Laboratory for nil consideration.

***Chengdu Yonghe***

On November 17, 2020, Chengdu Yonghe passed a shareholders' resolution for Yonghe Investment to transfer 100% equity interests Chengdu Yonghe to Beijing Haiyouyou for a consideration of RMB500,000.

On January 5, 2021, Chengdu Yonghe passed a shareholders' resolution to increase its registered capital from RMB500,000 to RMB555,556. The increase of RMB55,556 is contributed by Beijing Xunyi.

Save as disclosed above, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this document.

**4. Resolutions of the Shareholders of the Company Passed on [●]**

Pursuant to the resolutions passed at a duly convened general meeting of our Shareholders on [●], it was resolved, among others:

(a) the Memorandum and Articles of Association were approved and adopted, and will come into effect upon [**REDACTED**];

(b) conditional on (1) the Listing Committee granting the [**REDACTED**] of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document; and (2) the obligations of the [**REDACTED**] under the [**REDACTED**] becoming unconditional and the [**REDACTED**] not being terminated in accordance with the terms therein or otherwise:

(i) the [**REDACTED**] and the [**REDACTED**] were approved and our Directors were authorized to effect the same, and to allot and issue the [**REDACTED**] pursuant to the Capitalization Issue, [**REDACTED**] and the [**REDACTED**];

(ii) the grant of the [**REDACTED**] by our Company to the [**REDACTED**] to allot and issue up to 15% of the [**REDACTED**] initially available under the [**REDACTED**] to cover, among other things, the [**REDACTED**] in the [**REDACTED**] was approved; and

(iii) the proposed [**REDACTED**] was approved, and our Directors were authorized to implement such [**REDACTED**].

(c) a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares, and to make or grant offers, agreements, or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [**REDACTED**]

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders or upon the exercise of the [**REDACTED**]. This general mandate to issue Shares will remain in effect until:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under the applicable laws or the Articles of Association; or

(iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting of our Company;

whichever is the earliest;

(d) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [**REDACTED**] (excluding Shares which may be allotted and issued upon the exercise of the [**REDACTED**]).

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. This general mandate to repurchase Shares will remain in effect until:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or

(iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting of our Company;

whichever is the earliest; and

(e) the general unconditional mandate as mentioned in paragraph (c) above would be extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the [**REDACTED**], excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the [**REDACTED**]).

## 5. Restrictions on Repurchase

This section sets out information required by the Stock Exchange to be included in this document concerning the repurchase by us of our own Shares.

### *(a) Provisions of the Listing Rules*

The Listing Rules permit companies with a primary [**REDACTED**] on the Stock Exchange to repurchase their own Shares on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

*(i) Shareholders' Approval*

All proposed repurchase of Shares (which must be fully paid up in the case of shares) by a company with a primary [**REDACTED**] on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*(ii) Source of Funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the constitutive documents of a listed company, the laws of the jurisdiction in which the listed company is incorporated or otherwise established. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Subject to the foregoing, any repurchases by a listed company may be made out of the funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our share premium account.

***(b) Reasons for Repurchase***

Our Directors believe that it is in the best interest of us and our Shareholders for our Directors to have general authority from the Shareholders to enable us to repurchase 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.

***(c) Funding of Repurchases***

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum of Association and Articles of Association, the Companies Law or other applicable laws of Cayman Islands and the Listing Rules. On the basis of our current financial condition as disclosed in this document and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this document. 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 our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

***(d) General***

Exercise in full of the current repurchase mandate, on the basis of [**REDACTED**] Shares in issue after completion of the [**REDACTED**] (without taking into account of the Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**]), could accordingly result in up to [**REDACTED**] Shares being repurchased by us during the period prior to:

(i) the conclusion of our next annual general meeting;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles of Association to be held; or

(iii) the date on which the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to us or our subsidiaries. Our Directors have undertaken with 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 of Association and Articles of Association, the Companies Law or any other applicable laws of the Cayman Islands.

If, as a result of a 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 purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares than in issue could only implemented with the approval of the Hong Kong Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core 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 THE BUSINESS OF THE COMPANY

### 1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this document and are or may be material:

(a) an exclusive Operation services agreement dated January 6, 2021 and executed by Beijing Haiyouyou, Beijing Xunyi, Yonghe Investment, the Registered Shareholders and the VIE Entities, pursuant to which, among others, the VIE Entities, the Registered Shareholders and Beijing Xunyi agreed to engage Beijing Haiyouyou as their exclusive provider of technical support, consulting services and other services in exchange for a service fee;

(b) an exclusive option agreement dated January 6, 2021 and executed by Beijing Haiyouyou, the Registered Shareholders and Beijing Xunyi, pursuant to which, among others, each of the Registered Shareholders irrevocably and unconditionally granted Beijing Haiyouyou or its designated person an exclusive option to purchase all or part of his equity interests in Beijing Xunyi and Beijing Xunyi irrevocably and unconditionally granted Beijing Haiyouyou or its designated person an exclusive option to purchase all or part of Beijing Xunyi's assets;

(c) an exclusive option agreement dated January 6, 2021 and executed by Beijing Haiyouyou, Beijing Xunyi, Yonghe Investment and the VIE Entities, pursuant to which, among others, (i) Beijing Xunyi irrevocably and unconditionally granted Beijing Haiyouyou or its

designated person an exclusive option to purchase all or part of its equity interests in Yonghe Investment and Chengdu Yonghe; (ii) Yonghe Investment irrevocably and unconditionally granted Beijing Haiyouyou or its designated person an exclusive option to purchase all or part of its equity interests in Medical Institutions; and (iii) each of the VIE Entities irrevocably and unconditionally granted Beijing Haiyouyou or its designated person an exclusive option to purchase all or part of their respective assets;

(d) a shareholders' rights entrustment agreement dated January 6, 2021 and executed by Beijing Haiyouyou, the Registered Shareholders and Beijing Xunyi, pursuant to which, among others, each of the Registered Shareholders irrevocably authorized and entrusted Beijing Haiyouyou (and its successors or liquidators) or its designated natural person to exercise all his rights and powers as the shareholder of Beijing Xunyi;

(e) a shareholders' rights entrustment agreement dated January 6, 2021 and executed by Beijing Haiyouyou, Beijing Xunyi, Yonghe Investment and the VIE Entities, pursuant to which, among others, (i) Beijing Xunyi irrevocably authorized and entrusted Beijing Haiyouyou (and its successors or liquidators) or its designated natural person to exercise all its rights and powers as the shareholder of Yonghe Investment and Chengdu Yonghe (as applicable) (ii) Yonghe Investment irrevocably authorized and entrusted Beijing Haiyouyou (and its successors or liquidators) or its designated natural person to exercise all its rights and powers as the shareholder of the Medical Institutions;

(f) an equity pledge agreement dated January 6, 2021 and executed by Beijing Haiyouyou, the Registered Shareholders and Beijing Xunyi, pursuant to which, each of the Registered Shareholders unconditionally and irrevocably agreed to pledge and grant first priority security interests over all of his equity interest and rights in Beijing Xunyi to Beijing Haiyouyou for the purpose of securing the performance of the contractual obligations of the Registered Shareholders and Beijing Xunyi under the Contractual Arrangements;

(g) an equity pledge agreement January 6, 2021 and executed by Beijing Haiyouyou, Beijing Xunyi, Yonghe Investment and Chengdu Yonghe, pursuant to which, Beijing Xunyi unconditionally and irrevocably agreed to pledge and grant first priority security interests over all of its equity interest and rights in Yonghe Investment and Chengdu Yonghe to Beijing Haiyouyou for the purpose of securing the performance of the contractual obligations of Beijing Xunyi, Yonghe Investment and Chengdu Yonghe under the Contractual Arrangements;

(h) a undertaking dated [January 6], 2021 executed by Ms. LI Qian, the spouse of Mr. Zhang, to effect that she has no right to or control over the interests of Mr. Zhang held in Beijing Xunyi and the VIE Entities and will not have any claim on such interests;

(i) a undertaking dated [January 6], 2021 executed by Ms. ZHANG Ning, the spouse of Mr. ZHANG Hui, to effect that she has no right to or control over the interests of Mr. ZHANG Hui held in Beijing Xunyi and the VIE Entities and will not have any claim on such interests; and

(j) [**REDACTED**].

## 2. Our Material Intellectual Property Rights

### *(a) Trademarks*

As of the Latest Practicable Date, our material registered trademarks were as follows:

| No. | Trademark | Place of registration | Name of registered proprietor | Registration no. | Class | Expiry date |
|---|---|---|---|---|---|---|
| 1 | | PRC | Yonghe Investment | 26129403 | 10 | September 20, 2028 |
| 2 | | PRC | Yonghe Investment | 26124318 | 42 | December 06, 2028 |
| 3 | | PRC | Yonghe Investment | 26110014 | 44 | October 27, 2029 |
| 4 | | PRC | Yonghe Investment | 5905100 | 44 | February 20, 2030 |
| 5 | 雍禾 | PRC | Yonghe Investment | 8565083 | 5 | September 06, 2031 |
| 6 | 雍禾 | PRC | Yonghe Investment | 8565120 | 10 | August 13, 2031 |
| 7 | 雍享 | PRC | Yonghe Investment | 26128547 | 35 | September 20, 2028 |
| 8 | 雍享 | PRC | Yonghe Investment | 26115835 | 44 | September 20, 2028 |
| 9 | 雍享 | PRC | Yonghe Investment | 26108693 | 42 | September 20, 2028 |
| 10 | 雍享汇 | PRC | Yonghe Investment | 27147415 | 35 | October 27, 2028 |
| 11 | 雍享汇 | PRC | Yonghe Investment | 27142770 | 10 | October 27, 2028 |
| 12 | 雍享汇 | PRC | Yonghe Investment | 27125374 | 44 | November 06, 2028 |
| 13 | 毛管家 | PRC | Yonghe Investment | 42486837 | 44 | July 27, 2030 |
| 14 | 毛发管家 | PRC | Yonghe Investment | 42467394 | 44 | November 27, 2030 |
| 15 | | PRC | Svenson Beijing | 7603644 | 20 | November 20, 2030 |
| 16 | | PRC | Svenson Beijing | 7600362 | 35 | December 13, 2030 |

| No. | Trademark | Place of registration | Name of registered proprietor | Registration no. | Class | Expiry date |
|---|---|---|---|---|---|---|
| 17 | | PRC | Svenson Beijing | 4672133 | 44 | December 27, 2028 |
| 18 | | PRC | Svenson Beijing | 932686 | 5 | January 20, 2027 |

As of the Latest Practicable Date, we have applied for the registration of the following trademarks which have been published to the public and we consider to be material to our business:

| No. | Trademark | Place of registration | Name of applicant | Application no. | Class | Application date |
|---|---|---|---|---|---|---|
| 1 | 雍禾毛发 | PRC | Yonghe Investment | 53525374 | 44 | February 03, 2021 |
| 2 | | PRC | Yonghe Investment | 52448090 | 35 | December 24, 2020 |
| 3 | 雍禾毛发管家 | PRC | Yonghe Investment | 50638217 | 35 | October 22, 2020 |

***(b) Patents***

As of the Latest Practicable Date, our material registered patents were as follows:

| No. | Patient No. | Description | Patent type | Place of Registration | Registered owner | Application date |
|---|---|---|---|---|---|---|
| 1. | ZL201930685346.3 | Operating room communication trolley | Design | PRC | Yonghe Investment | December 09, 2019 |
| 2. | ZL201930685445.1 | Hair testing machine | Design | PRC | Yonghe Investment | December 09, 2019 |
| 3. | ZL201930555554.1 | Hair testing machine | Design | PRC | Yonghe Investment | October 12, 2019 |

| No. | Patient No. | Description | Patent type | Place of Registration | Registered owner | Application date |
|---|---|---|---|---|---|---|
| 4. | ZL201921693956.9 | A testing device | Utility model | PRC | Yonghe Investment | October 10, 2019 |
| 5. | ZL201820622564.2 | Hair transplant punch and hair transplant surgery equipment | Utility model | PRC | Yonghe Investment | April 27, 2018 |
| 6. | ZL201730131657.6 | Hair follicles extract needles | Design | PRC | Yonghe Investment | April 19, 2017 |
| 7. | ZL201720102689.8 | A hair follicles extract needle | Utility model | PRC | Yonghe Investment | February 2, 2017 |
| 8. | ZL202130288308.1 | Postoperative effect imaging contraster | Design | PRC | Yonghe Investment | May 14, 2021 |

For material patents of our Group as of the Latest Practicable Date, please refer to the paragraph headed "Business — Intellectual Property" in this document for more details.

***(c) Domain Names***

As of the Latest Practicable Date, our material domain names were as follows:

| No. | Domain name | Registrant | Date of registration | Expiry date |
|---|---|---|---|---|
| 1. | zhifa.cc | Yonghe Investment | December 30, 2009 | December 30, 2021 |
| 2. | yonghegroup.cn | Beijing Yonghe | November 30, 2020 | November 30, 2022 |

***(d) Software Copyrights***

As of the Latest Practicable Date, our material software copyrights were as follows:

| No. | Registered owner | Description | Type | Registration No. | Registration Institution | Registration Date |
|---|---|---|---|---|---|---|
| 1. | Yonghe Investment | Yonghe Hair Transplant Hair Manager Software [Abbreviation: Hair Manager] V1.0 (雍禾植發毛發管家軟件[簡稱：毛髮管家]V1.0) | Computer Software | 2020SR0331600 | NCAC | April 14, 2020 |

| No. | Registered owner | Description | Type | Registration No. | Registration Institution | Registration Date |
|---|---|---|---|---|---|---|
| 2. | Yonghe Investment | Hair Professional Testing and Analysis System V1.0 (毛髮專業檢測分析系統V1.0) | Computer Software | 2020SR0654780 | NCAC | June 19, 2020 |
| 3. | Yonghe Investment | Hair Transplant Patient Self-service Platform [Abbreviation: Hair Transplant Patient Self-service Platform]V1.2 (植發患者自主服務平臺[簡稱：植發患者自主平臺]V1.2) | Computer Software | 2018SR654146 | NCAC | August 16, 2018 |
| 4. | Yonghe Investment | Yongxianghui Pro Content Sharing Platform App [Abbreviation: Yongxianghui Pro]V1.1.1 (雍享匯Pro內容分享平臺APP[簡稱：雍享Pro] V1.1.1) | Computer Software | 2019SR1040615 | NCAC | October 14, 2019 |

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

## C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of Interests

*(a) Interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of our Company and our associated corporations*

The following table sets out the interests and short positions of our Directors and chief executive of our Company immediately following completion of the [**REDACTED**] (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**]) in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are 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 to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once our Shares are [**REDACTED**]:

| **Name of Director/ Chief Executive** | **Capacity/nature of interest** | **Number of Shares immediately after the completion of the [REDACTED]** | **Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] (assuming no exercise of the [REDACTED])** | **Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] (assuming the [REDACTED] is fully exercised) (1)** |
|---|---|---|---|---|
| Mr. Zhang(2)(3) | Founder and beneficiary of a discretionary trust Controlled corporation | 181,531,916 | [**REDACTED**] | [**REDACTED**] |
| Zhang Hui(4) | Founder and beneficiary of a discretionary trust | 24,000,000 | [**REDACTED**] | [**REDACTED**] |
| Geng Jiaqi(5) | Interest in controlled corporation | 658,668 | [**REDACTED**] | [**REDACTED**] |

*Notes:*

(1) The calculation is based on the total number of [**REDACTED**] Shares in issue immediately after completion of the [**REDACTED**] (without taking into account the Shares which may be issued upon the exercise of the [**REDACTED**]).

(2) ZY Investment Capital Ltd is an investment holding company incorporated in BVI. The entire share capital of ZY Investment Capital Ltd is wholly owned by ZY Ventures Ltd. The entire share capital of ZY Ventures Ltd is wholly owned by Trident Trust Company (Singapore) Pte Limited as the trustee of The ZY Trust. The ZY Trust is a discretionary trust set up by Mr. Zhang as the settlor on March 25, 2021 for benefit of Mr. Zhang and certain of his family members. Mr. Zhang (as the founder of the ZY Trust) and Trident Trust Company (Singapore) Pte Limited are taken to be interest in 40,382,979 Shares held by ZY Investment Capital Ltd under the SFO.

(3) Yunuo Technology Holdings Limited is an investment holding company incorporated in the BVI and is wholly owned by Shanghai Yuxin Technology Partnership Company (Limited Partnership) (上海予信科技合夥企業(企業合夥)). The limited partner of Shanghai Yuxin Technology Partnership Company (Limited Partnership) is Mr. Zhang, and the general partner is Shanghai Yuhe Technology Partnership Company (Limited Partnership) (上海予赫科技合夥企業(企業合夥)). Therefore, Mr. Zhang is deemed to be interested in 5,000,000 Shares held by Yunuo Technology Holdings Limited under the SFO.

(4) ZH Investment Capital Ltd is an investment holding company incorporated in BVI. The entire share capital of ZH Investment Capital Ltd is wholly owned by ZH Ventures Ltd. The entire share capital of ZH Ventures Ltd is wholly owned by Trident Trust Company (Singapore) Pte Limited as the trustee of The ZH Trust. The ZH Trust is a discretionary trust set up by Mr. Zhang Hui as the settlor on March 25, 2021 for benefit of Mr. Zhang Hui and certain of his family members. Mr. Zhang Hui (as the founder of the ZH Trust) and Trident Trust Company (Singapore) Pte Limited are taken to be interest in 6,000,000 Shares held by ZH Investment Capital Ltd under the SFO.

(5) Jiaqi Hair Service Limited is an investment holding company incorporated in BVI. The entire share capital of Jiaqi Hair Service Limited is wholly owned by Geng Jiaqi, a non-executive Director. Accordingly, Geng Jiaqi is deemed to be interested in the Shares held by Jiaqi Hair Service Limited.

### *(b) Interests of the substantial shareholders in the Shares*

Save as disclosed in the section headed "Substantial Shareholders", immediately following the completion of the [**REDACTED**] and without taking into account any Shares which may be issued pursuant to the exercise of the [**REDACTED**], our Directors are not aware of any other person (not being a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

## 2. Particulars of Directors' Service Contracts and Letters of Appointment

Each of our executive Directors [has entered] into a service contract with our Company and we have issued letters of appointment to our non-executive Director and each of our independent non-executive Directors. The principal particulars of these service contracts and letters of appointment are (a) for a term of 3 years commencing from the [**REDACTED**] and (b) are subject to termination in accordance with their respective terms. The term of the service contracts and the letters of appointment may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter, a service contract with any member 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. Emoluments of Directors

The aggregate amount of emoluments which was paid to our Directors for the three financial years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021 were approximately RMB1.1 million, RMB1.8 million, RMB5.7 million and RMB1.0 million, respectively.

It is estimated that emoluments and benefits in kind equivalent to approximately RMB2.2 million in aggregate will be paid and granted to our Directors by us in respect of the three financial year ending December 31, 2021 under arrangements in force at the date of this document.

The aggregate amount of remuneration which were paid by the Group to our five highest paid individual (including both employees and Directors) for the three financial years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021 were RMB2.8 million, RMB7.0 million, RMB11.5 million and RMB2.8 million, respectively.

None of our Directors or any past directors of any member of the Group has been paid any sum of money for each of the three financial years ended December 31, 2018, 2019 and 2020 as (a) an inducement to join or upon joining the Company; or (b) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years ended December 31, 2018, 2019 and 2020.

## 4. Disclaimers

Save as disclosed in this document:

(a) none of our Directors or our chief executive has any interest or short position in the Shares, underlying Shares or debentures of us or any of our associated corporations (within the meaning of Part XV the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are [**REDACTED**] on the Stock Exchange;

(b) none of our Directors is aware of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the [**REDACTED**] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**]), have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is interested, directly or indirectly, in 10% or more of the issued voting shares of any member of our Group; and

(c) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who own more than 5% of the number of issued shares of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

## D. OTHER INFORMATION

### 1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

### 2. Litigation

Except as disclosed in this document, 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 is known to our Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on our Group's results of operations or financial condition, taken as a whole.

### 3. Preliminary expenses

As of the Latest Practicable Date, our Company has not incurred any material preliminary expenses.

### 4. Promoter

Our Company has no promoter for the purpose of the [**REDACTED**]. Within the two years preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the [**REDACTED**] and the related transactions described in this document.

### 5. Taxation of Holders of Shares

#### *(1) Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are 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, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

*(2) Cayman Islands*

There is no stamp duty 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) Consultation with professional advisers*

Potential investors in the [**REDACTED**] 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 or dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], or any other person or party involved in the [**REDACTED**] 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.

## 6. Application for [REDACTED]

The Joint Sponsors has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the [**REDACTED**] of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

## 7. No Material Adverse Change

Our Directors up to the date of this document, there has been no material adverse change in the financial or trading position or prospect of our Group since December 31, 2021 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

## 8. Qualifications of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinion and/or advice in this document are as follows:

| Name | Qualifications |
|---|---|
| Morgan Stanley Asia Limited | Licensed corporation under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO |

| Name | Qualifications |
|---|---|
| China International Capital Corporation Hong Kong Securities Limited | A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO |
| PricewaterhouseCoopers | Certified Public Accountants under Professional Accountants Ordinance (Cap. 50)<br><br>Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588) |
| Campbells | Cayman legal adviser |
| Tian Yuan Law Firm | PRC legal adviser |
| Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. | Industry consultant |
| Protiviti Shanghai Co., Ltd. | Internal control expert |

As of the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## 9. Consents

Each of the experts named in paragraph headed "8. Qualifications of Experts" above has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

## 10. Joint Sponsors' Independence

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors' fees payable by us in respect of the Joint Sponsors' services as sponsor for the [**REDACTED**] are USD1 million in total.

## 11. Binding Effect

This document shall have the 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.

## 12. Miscellaneous

Save as otherwise disclosed in this document:

(a) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or has been agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) no founder, management or deferred shares of the Company or any of its subsidiaries have been issued or have been agreed to be issued;

(d) none of the equity and debt securities of the Company is listed or dealt in on any stock exchange (other than the Stock Exchange) nor is any listing or permission to deal being or proposed to be sought;

(e) the Group has no outstanding convertible debt securities or debentures;

(f) there is no arrangement under which future dividends are waived or agreed to be waived;

(g) the English text of this document and the [**REDACTED**] shall prevail over their respective Chinese text;

(h) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this document;

(i) within the two years preceding the date of this document, no commission has been paid or is payable (except commissions to sub-[**REDACTED**]) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company;

(j) none of our Directors or experts referred to in the paragraph headed "D. Other Information 8. Qualifications of Experts" of this appendix has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(k) none of our Directors or experts referred to in the paragraph headed "D. Other Information 8. Qualifications of Experts" of this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole; and

(l) within the two years preceding the date of this document, no commission has been paid or is payable (except commissions to sub-[**REDACTED**]) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company.

## DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were (i) a copy of the **GREEN** [**REDACTED**]; (ii) copies of each of the material contracts referred to in the section headed "Appendix IV — Statutory and General Information — B. Further Information about the Business of the Company — 1. Summary of material contracts"; and (iii) the written consents issued by each of the experts and referred to in section headed "Appendix IV — Statutory and General Information — D. Other information — 8. Qualifications of Experts".

## DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.yonghegroup.cn** during a period of 14 days from the date of this document:

(a) the Memorandum of Association and Articles of Association;

(b) the accountant's report of the Group for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 from PricewaterhouseCoopers, the text of which is set out in Appendix I to this document;

(c) the audited consolidated financial statements of our Group for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021;

(d) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this document;

(e) the PRC legal opinions issued by Tian Yuan Law Firm, our legal advisers on PRC law, in respect of our general matters and property interests;

(f) the letter issued by Campbells, our legal advisers on Cayman Islands laws, summarizing certain aspects of Companies Law referred to in the section headed "Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law";

(g) the industry report prepared by Frost & Sullivan referred to in the section headed "Industry Overview" in this Document;

(h) the report for internal control review over the non-compliance incidents referred to in the paragraph headed "Licenses, Permits, Approvals and Compliance" in the section headed "Business" in this document prepared by Protiviti;

(i) the Companies Law;

(j) the material contracts referred to in the section headed "Appendix IV — Statutory and General Information — B. Further Information about the Business of the Company — 1. Summary of Material Contracts";

(k) the service agreements and letters of appointment referred to in "Appendix IV — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders — 2. Particulars of Directors' Service Contracts and Letters of Appointment"; and

(l) the written consents referred to in the section headed "Appendix IV — Statutory and General Information — D. Other Information — 9. Consents".