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贝黎诗
PALAISPA

CellCare
[秀|可|儿|医|美]

NEOLOGY
研源医疗

Beauty Farm Medical and Health Industry Inc.
美麗田園醫療健康產業有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2373)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2022

	Year ended December 31		
	2022	2021	Change
	RMB'000	RMB'000	
Revenue	1,635,414	1,780,740	-8.2%
Gross profit	717,842	833,786	-13.9%
Gross profit margin	43.9%	46.8%	-2.9%
Net profit	110,532	208,341	
Adjusted net profit (non-HKFRS measure)	157,359	226,694	-30.6%
Adjusted net profit margin (non-HKFRS measure)	9.6%	12.7%	
	RMB	RMB	
Earnings per share			
— Basic	0.52	0.97	
— Diluted	0.52	0.97	
Adjusted earnings per share (non-HKFRS measure)			
— Basic	0.75	1.06	
— Diluted	0.75	1.06	

* For identification purposes only

NON-HKFRS MEASURES

To supplement the consolidated financial statements of the Group presented in accordance with HKFRS, the Company has presented adjusted net profit and adjusted net profit margin as non-HKFRS measures, which are not required by or presented in accordance with HKFRS. The Company believes that adjusted financial measures provide useful information to the Shareholders and potential investors to understand and evaluate the consolidated statement of profit and loss of the Group and assist the management of the Company in its decision making. The Company believes that by eliminating the effects of items that it believes are not indicative of the Group's operating performance, such adjusted financial measures assist the management of the Company and investors to evaluate the financial and operating performance of the Group for different periods on a comparable basis. However, these non-HKFRS measures should not be considered independently or as a substitute for financial information prepared and presented in accordance with HKFRS. Shareholders and potential investors should not independently evaluate such adjusted results or regard it as a substitute for, or comparable to, performance reported or forecasted by other companies, as they may use similar terms with different meanings. In addition, these non-HKFRS measures have their limitations as analytical tools and may differ from similar measures used by other companies.

The Company provides the following additional information for reconciliation with the adjusted net profit under non-HKFRS.

	Year ended December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	110,532	208,341
Adjusted for:		
Share-based compensation expenses	14,178	6,290
Listing expenses	32,649	12,063
Adjusted profit for the year (non-HKFRS measure) (Note)	157,359	226,694

Note:

To better reflect the key performance of the Group's current business operations, the adjusted net profit under non-HKFRS is calculated based on net profit, but does not include:

- a) Share-based payment expenses, which are non-cash expenses incurred for the grant of share awards to certain management personnel and do not result in cash outflow.
- b) Listing expenses related to the Listing and Global Offering.

The Board has resolved to recommend the distribution of a final dividend of HK\$0.39 per share (equivalent to RMB0.34**) for the year ended December 31, 2022 (a total of approximately HK\$92.3 million), subject to approval by the Shareholders at the AGM. The final dividend is expected to be paid to the Shareholders on or before Thursday, September 28, 2023. The dividend will be paid to the Shareholders whose names appear on the Company's register of shareholders on Wednesday, June 28, 2023. The Group is not aware of any arrangement by which any shareholder has waived or agreed to waive any dividend.

** *Being the official exchange rate of HK dollars against Renminbi as quoted by the People's Bank of China on March 22, 2023.*

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

2022 was a challenging year for the Group. On April 22, 2022, the Group submitted a listing application to the Stock Exchange, marking the first step in our journey to the capital market. On January 16, 2023, we successfully completed the Global Offering, which was a significant milestone in the history of the Group. On the other hand, the recurrence of COVID-19 (the “**Pandemic**”) continued, especially in the first half of 2022, when epidemic prevention measures were tightened in various areas and certain cities remained locked down. Consumers’ attitudes towards travel and consumption were cautious, which posed challenges to the financial performance of the Group. In 2022, we adhered to our prudent development strategy, maintained our original store-opening plan, and actively promoted continuous employee training, digital construction and product development. This enabled the Group to better cope with external pressures, to seize recovery opportunities in a timely manner, to maintain a high level of competitiveness, and to help the recovery of the Group’s profitability as soon as possible in a challenging external environment.

We are the largest provider of traditional beauty services and the fourth largest non-surgical aesthetic medical service provider in China with a market share of 0.2% and 0.6%, respectively, as measured by revenue in 2021. Our diversified service offerings cover traditional beauty services, aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services) as well as subhealth assessment and intervention services that are all personalized to serve our clients’ health and beauty desire. The Group operates multiple chain brands in China’s beauty and health management service industry, including BeautyFarm (美麗田園), our flagship brand established in 1993, and three other brands, namely, Palaispa (貝黎詩), Neology (研源) and CellCare (秀可兒). The Group has built a national direct store network, which consisted of 189 direct stores including 91 stores in tier-one cities and 76 stores in new tier-one cities, as of December 31, 2022. In addition, our extensive national store network included 189 stores operated by our franchisees as of the same date.

Our clients are at the core of our business. Our comprehensive service offerings have attracted a large base of active clients. They enjoy high spending power, and constantly pursue a healthy lifestyle and physical appeal. In 2022, our direct stores served 78,318 active members, which increased by 1.2% compared with it in 2021. Our active members from direct stores made a total of 947,274 visits with an average of 9.5 visits and an average spending of RMB18,586 in 2022. 83.2% of our active members made multiple purchases of our services in 2022. In addition, 72.3% of our active members in 2019 made multiple purchases of our services from 2020 to 2022, demonstrating the high stickiness of our customers. In addition to our increasing client volume in direct stores, our franchised stores served 29,899 active members in 2022, which increased by 7.1% compared with it in 2021.

For the year ended December 31, 2022, the Group's revenue was RMB1,635.4 million, representing a decrease of 8.2% as compared with RMB1,780.7 million in 2021. For the year ended December 31, 2022, the gross profit was RMB717.8 million, with a gross profit margin of 43.9%.

The following table sets forth a breakdown of the Group's revenue, gross profit and gross profit margin by business lines for the years indicated:

	For the year ended December 31							
	2022				2021			
	Revenue <i>RMB'000</i>	%	Gross profit <i>RMB'000</i>	Gross profit margin %	Revenue <i>RMB'000</i>	%	Gross profit <i>RMB'000</i>	Gross profit margin %
Traditional beauty services								
— Direct stores	835,609	51.1	280,141	33.5	941,357	52.9	360,621	38.3
— Franchisee and others	111,137	6.8	68,507	61.6	105,427	5.9	60,621	57.5
Aesthetic medical services	620,199	37.9	342,803	55.3	673,025	37.8	386,360	57.4
Subhealth assessment and intervention services	68,469	4.2	26,391	38.5	60,931	3.4	26,184	43.0
Total	1,635,414	100.0	717,842	43.9	1,780,740	100.0	833,786	46.8

The following table sets forth a breakdown of the Group's revenue, gross profit and gross profit margin by brands for the years indicated:

	For the year ended December 31							
	2022				2021			
	Revenue <i>RMB'000</i>	%	Gross profit <i>RMB'000</i>	Gross profit margin %	Revenue <i>RMB'000</i>	%	Gross profit <i>RMB'000</i>	Gross profit margin %
BeautyFarm (美麗田園)	769,211	47.0	266,237	34.6	855,966	48.1	328,562	38.4
Palaispa (貝黎詩)	66,398	4.1	13,904	20.9	85,391	4.8	32,059	37.5
CellCare (秀可兒)	620,199	37.9	342,803	55.3	673,025	37.8	386,360	57.4
Neology (研源)	68,469	4.2	26,391	38.5	60,931	3.4	26,184	43.0
Franchisee and others	111,137	6.8	68,507	61.6	105,427	5.9	60,621	57.5
Total	1,635,414	100.0	717,842	43.9	1,780,740	100.0	833,786	46.8

Traditional Beauty Services

For the year ended December 31, 2022, the revenue generated from the direct stores of traditional beauty services of the Group was RMB835.6 million, representing a decrease of 11.2% as compared to the previous year. The traditional beauty services of the Group primarily include facial and body care service procedures intended to improve skin condition and overall physical well-being of our clients, which are non-medical and non-invasive in nature. Based on the efforts and commitment of the Group, the number of active members of the Group continues to grow. For the year ended December 31, 2022, the number of active members of the Group's traditional beauty services was 75,744, representing an increase of 0.3% as compared to 2021.

The following table presents the key operational data of the traditional beauty services of the Group:

	For the year ended December 31	
	2022	2021
Number of client visits	885,927	993,235
Number of active members served	75,744	75,548
Average spending per active member (RMB)	10,383	11,843
Number of visits per active member	9.0	10.2

Aesthetic Medical Services

For the year ended December 31, 2022, the revenue of aesthetic medical services of the Group was RMB620.2 million, representing a decrease of 7.8% as compared to the previous year. We win client trust through our traditional beauty services, and then extend to aesthetic medical services and subhealth assessment and intervention services across the full client lifecycle. Our clients have a long history of trusting our consistent service quality and brand characteristics, based on which more clients are attracted to purchase our aesthetic medical services and subhealth assessment and intervention services to meet their needs on beauty and health. In 2022, 23.7% of the active members of our traditional beauty services purchased aesthetic medical services or subhealth assessment and intervention services, representing an increase of 2 percentage points as compared with 2021, which is expected to further grow in the future. For the year ended December 31, 2022, the number of active members of the Group's aesthetic medical services was 18,735, representing an increase of 10.9% as compared with the previous year.

The following table presents the key operational data of the aesthetic medical services of the Group:

	For the year ended December 31	
	2022	2021
Number of client visits	50,735	52,962
Number of active members served	18,735	16,896
Average spending per active member (<i>RMB</i>)	33,104	39,833
Number of visits per active member	2.7	3.1

Subhealth Assessment and Intervention Services

For the year ended December 31, 2022, the revenue of subhealth assessment and intervention services of the Group was RMB68.5 million, representing an increase of 12.4% as compared to the previous year. For the year ended December 31, 2021, the number of active members of the Group's subhealth assessment and intervention services was 3,070, representing an increase of 14.8% as compared with the previous year.

The following table presents the key operational data of the subhealth assessment and intervention services¹ of the Group:

	For the year ended December 31	
	2022	2021
Number of client visits	10,612	8,755
Number of active members served	3,070	2,675
Average spending per active member (<i>RMB</i>)	15,967	16,364
Number of visits per active member	3.5	3.3

¹ When analyzing per store performance and same-store sales, we exclude the cooperation fee in relation to subhealth assessment and intervention services (namely, RMB19.4 million and RMB17.2 million in 2022 and 2021 respectively) as it cannot be properly attributable to operation of any specific stores

Business Development

1. Impact of the Pandemic

During the Reporting Period, economic activities in various cities across the country were weakened due to the impact of the Pandemic, which also had a significant impact on our business operations. To actively comply with relevant government policies for Pandemic prevention and control, 167 of our direct stores were temporarily closed to a certain extent, with an average closure period of approximately 75 days. From March to June, 2022, Shanghai experienced large-scale store closures due to lockdowns, resulting in a 22% year-on-year decline in revenue of the Group. From July to October, 2022, as the Pandemic prevention and control policies eased, stores gradually reopened, and customer flow rebounded, leading to an 11% year-on-year growth in revenue. From November to December, 2022, after the nationwide Pandemic prevention and control policies were lifted, both employees and consumers experienced a slow process of infection and recovery, leading to another 22% year-on-year decline in revenue.

Due to the different characteristics of our three major businesses, their respective impact from the Pandemic varies. Our traditional beauty services, which are mainly focused on multi-frequency services, was hit the hardest, followed by aesthetic medical services. However, as customers' awareness of their health status increased after the Pandemic, our subhealth assessment and intervention services saw an increase in both client visits and revenue. To mitigate the impact of the Pandemic, we took proactive measures during the Pandemic, such as promoting our services through online channels, including live streaming, online interactions among members and community group purchases. As a result, we maintained stable customer and member demand for our prepaid packages during the Pandemic.

Beginning from January 2023, with the gradual lifting of national pandemic control measures, the consumer market in various regions has seen a gradual recovery, and the client visits and revenue of our stores have significantly rebounded. As of March 26, 2023, both our client visits and average spending per visit show a low double digit growth as compared with the same period in 2022. This indicates a rapid rebound in consumer demand for beauty services and at the same time highlights the efficiency of the Group's internal management and the influence of our brands, giving us confidence in the recovery of our business performance in 2023.

2. *Maintaining operation stability and expanding store network in an orderly manner*

In 2022, despite the impact of the Pandemic, the Group continued to steadily expand its store network in order to maintain operation stability. As of December 31, 2022, the Group's extensive store network includes 189 direct stores and 189 franchised stores. During the Reporting Period, the Group opened 20 new direct stores, including 17 traditional beauty service stores, and established new Cellcare stores in Jinan and Xiamen, as well as one Neology healthcare center in Xi'an. In addition, the Group upgraded 19 traditional beauty service stores, five Cellcare stores, and one Neology healthcare center. While actively expanding its direct stores, the Group has also continued to expand its franchisee network. In 2022, the Group opened 35 new franchised stores.

	For the year ended December 31 2022	
	Direct stores	Franchised stores
At the beginning of the year	177	160
Opening of new stores	20	35
Acquisition of new stores	—	—
Closure of stores	8	6
Total	<u>189</u>	<u>189</u>

3. *Promoting product and service innovation*

Due to the impact of the Pandemic and changes in the market, customers' demand for physical healthcare has gradually expanded. The Group's traditional beauty business has continuously gained insight into the needs of modern professional women for physical healthcare, and has further innovated and developed a series of women's physical healthcare products, which focuses on the adjustment of traditional healthcare and subhealth. As a result, the proportion of physical healthcare in the traditional beauty business has been further expanded during the year.

During the Reporting Period, our aesthetic medical business has devoted more effort in the field of research and innovation. For the year ended December 31, 2022, we have obtained five national medical utility model patents, including "a roller needle with dense needle point arrangement (一種密集針尖排列的滾針) (patent number: 2022204618075)" and "an electrocoagulation knife with adjustment function for eye bag surgery (一種眼袋手術用具有調節功能的電凝刀) (patent number: 2022222350712)". Two of our national medical technology invention patents have entered the public examination stage, and two of our self-developed technologies are in the patent application stage.

In 2022, we established a Women’s Special Care Center as part of our subhealth assessment and intervention services business. The center focuses on women’s health issues. The “Female Reproductive Mucosa Health and Related Diseases Clinical Diagnosis and Treatment Research” Project declared by our scientific research team was successfully completed and it won first place in the National Health and Medical Commission’s “14th Five-Year Key Topic Research”. The Group is constantly exploring and opening up new directions in the field of women’s health.

4. Professional stabilization and in-house training

The Group has maintained its strong ability to attract, cultivate, and retain employees. As of December 31, 2022, we had a total of 3,707 full-time employees. Our service personnel as well as sales and marketing staff mainly work in our stores throughout China, while other employees primarily work at our Shanghai headquarters. The following table sets forth a breakdown of our full-time employees by function as of December 31, 2022.

	As of December 31 2022
Service personnel	1,914
General and administrative staff	970
Sales and marketing staff	733
R&D staff	90
	<hr/>
Total	<u><u>3,707</u></u>

The qualifications and expertise of our service personnel are crucial to our competitiveness and long-term success. Our physicians and nurses have obtained the requisite qualifications and were registered with local authorities in accordance with applicable laws and regulations. Our trained therapists are not required to be licensed or registered under applicable PRC laws and regulations, but we will provide training to all therapists and require all therapists to pass our internal evaluations before commencing their roles. The following table sets forth a breakdown of the service personnel team members at the Group’s stores as of December 31, 2022:

	As of December 31 2022
Registered physicians	113
Registered nurses	145
Pharmacists	12
Trained therapists providing traditional beauty services	1,480
Store directors	164
	<hr/>
Total	1,914
	<hr/> <hr/>

In 2022, we continued to provide various training programs to enhance the professional capabilities of our employees. Especially during the period of store closures due to the Pandemic, we took the initiative to provide project retraining and pre-learning for new product launches through our internal online education platform and micro-courses to consolidate knowledge, improve skills, and fully prepare to provide excellent customer service upon reopening. Throughout the year, we launched nearly 3,000 learning projects, with over 50,000 cumulative participants and a total of more than 100,000 effective learning hours.

The Group’s aesthetic medical business adheres to technology as the core, and continuously improves the professional technical training of our physicians. For new physicians, the Group carried out the “Elite Physician Technical Training” project. In 2022, we focused on all-round basic training for dermatologists focusing on dermatology clinical practices, practical skills and standardized service consultation procedures. During the year, the Group completed the training of 13 dermatologists who demonstrated excellent practice results in outpatient performance. For in-service physicians, we closely cooperated with upstream suppliers, participated in expert guidance of new technologies and new products, standardized delivery processes, in-depth seminars and technical certification, and continuously improved the practical ability of physicians, so as to improve product efficiency and customer satisfaction. We also continue to provide external training and related academic seminars on new technologies and products in the market, so as to continuously improve the professional ability of physicians and improve customer satisfaction.

During the Pandemic in 2022, the Group took advantage of the opportunity presented by store closures to maintain the stability and retention of its professional staff through measures such as organizing online team building activities, recognizing outstanding employee achievements and implementing a special compensation protection system. In addition, as a result of improved employee morale and identification with the Company, the number of professional talents recommended internally reached a new historical high in 2022.

5. *Committing to digital investments in order to yield results*

The Group is committed to long-term strategic investment in digital construction and firmly believes that digitalization will continue to enhance the Company's competitiveness and become a new driver of its business growth.

In 2022, our digital construction achieved the research and iterative operation of 10 important self-developed systems, including the store operation management system, the Beautyfarm WeChat applet, the customer management function in Enterprise WeChat, and so on. We have also adopted the latest digital architecture and designed a digital system for the Group. We have built an innovative online-offline integrated operation platform that is unique in the industry. Through the digital collection of customer information in our comprehensive network, we further identify the various needs of customers for different businesses. Combined with the unique customer service process of Beauty Farm, a unique private domain ecological business model has formed, which provides customers with more detailed and tailor-made services, and improves our operational efficiency and customer satisfaction.

With the empowerment of digital technology, we have gained a leading position in the industry in terms of acquiring new customers, cultivating and retaining customers, as well as customer contribution and engagement. This has helped us solidify our market leadership and provided sustained momentum for the future development of the Company.

6. *Deepening upstream cooperation and establishing industry standards*

We value establishing long-term and good collaborative research relationships with quality upstream industry suppliers, as well as scientific research units and organizations that provide professional medical technology and equipment services. In July 2022, CellCare (秀可兒), an aesthetic medical brand under the Group, established the "Super Brand Alliance" with Allergan, a leading global medical aesthetic biopharmaceutical enterprise, and won the title of "China Leading Enterprise of Juvederm Family" with their first "Super Brand Day" event, "Go With Allergan". At the end of 2022, we reached a strategic cooperation with IMEIKE, a leading domestic provider of innovative aesthetic medical products. We enriched and improved a number of medical service technologies that have industry differentiation through mutual sharing of technical resources, so as to launch a number of new product and treatment service co-creation R&D initiatives.

During the year, we were honored with the 2022 Shanghai District Mayor's Quality Award (2022年度上海市區長質量獎金獎), which is a high recognition and affirmation of the quality service management model, leading position in the industry and social benefits achieved by the Group. Taking this award as a starting point, we will promote the standardization of the industry and provide assistance for the quality development of peer companies.

Future Outlook

1. Strategically expanding service network and marketing channels to expand customer base and enhance brand awareness

We will continue to strategically expand our service network and plan to open over 50 new direct and franchised stores for our traditional beauty services in 2023. We will also continue to open new Cellcare stores in regions not yet covered by our aesthetic medical services, and expand our Neology healthcare centers in suitable regions as customer numbers increase. In addition, we will continuously upgrade our operations at both traditional beauty stores and Cellcare stores to enhance customer comfort.

Mergers and acquisitions will also serve as an important measure for the Group to expand its scale, bringing rapid growth to the Group. We will actively pay attention to the leading chain brands in the direct sales areas. We will consolidate our market position in such areas through mergers and acquisitions or strategic investments, effectively expanding our customer base and further developing such regions. In addition, we are considering acquiring franchised regions with excellent performance, empowering such regions through direct operation, and driving the acceleration of growth for our three beauty businesses. We will also cooperate with peer companies that appear in the post-Pandemic era and intend to be disposed of to undertake their customer resources.

In 2023, we will fully promote the integrated online and offline operation model, and create a new situation of integrated operation by integrating and complementing online and offline resources, strengthening user stickiness and precise marketing. We will also focus on the penetration rate of aesthetic medical business customers and the empowerment of dual-beauty institutions. We will continue to explore opportunities for innovative cross-industry cooperation to expand our customer base and enhance brand awareness.

2. Further improving operational efficiency and customer experience through standardization and digitalization

In 2023, the Group will continue to focus on digitalization around business operations, customers and organization, in order to enhance overall business management capability, customer marketing capability, decision-making ability and operational efficiency.

We will establish a new professional operational system for medical institutions, incorporating the nationwide chain management of Cellcare stores and Neology healthcare centers as well as our entire medical professional management process into the system. This upgrade to the existing medical system will include the integration of medical testing equipment data, standardized clinical process management and optimization of clinic operational efficiency.

We will further improve our management ability to identify customers' needs through out our entire business network, and comprehensively collect customer behavior data around their touchpoints online, offline and in a full range of scenarios. With the assistance of enterprise WeChat, we are able to provide personalized services.

To enhance the vitality of our employee organization, we will create a digital system around “value creation, value evaluation and value distribution” to quantify employees' abilities and evaluate their value realization. This will help improve employees' work initiative and increase their productivity per capita.

3. Improving customer loyalty and meeting the changing needs of customers by introducing new technologies, new equipment, new products and expanding service portfolio

In 2023, our traditional beauty business will continue to promote the R&D and innovation of women's healthcare projects, and launch targeted basic healthcare projects aimed at women's chronic fatigue, improving sleep quality and relieving gastrointestinal pressure and eye fatigue.

We will continue to innovate and specialize in the safety, comfort and satisfaction of our aesthetic medical products and services. Based on the management philosophy of “small changes, big differences”, we will refine and scientifically manage the product technologies and marketing levels. We will continuously launch new projects to improve and treat neck skin tone and texture, improve and treat facial skin inflammation, and improve and solve facial sagging problems. In addition, we will continue to independently research and apply for national invention patents, further constructing professional barriers for the aesthetic medical products of the Group.

Our subhealth assessment and intervention services will continue to focus on the development of functional medical detection and Women's Special Care Center. By integrating global advanced biotechnology, professional and comprehensive diagnosis and treatment methods and quality medical services, women's physical health problems will be improved and a personalized women's health management system will be established. Furthermore, we will also pay attention to the endocrine disorders and metabolic risks of customers in different ages and health states, and use advanced technologies, such as hormone supplementation, removal of circulatory metabolic waste and maintenance of intestinal microecological balance, to systematically and comprehensively improve customers' subhealth problems and recover body function and vitality to enjoy a healthy life.

4. *Continuing to cultivate, recruit and retain quality talents, and strengthening the Group's human resources management mechanism*

We have built "BeautyFarm Training Centers (美麗田園培訓中心)" in Shanghai and Wuhan, where our service personnel could learn service procedures and improve their service quality. Our employees are required to participate in pre-work training and will participate in another session prior to their promotion or when we introduce new services. Since its establishment, our BeautyFarm Training Centers have provided over 13,000 courses to our service personnel. In addition to the two training centers, inspired by the Pandemic, we have introduced advanced digital training technology and innovatively established an online-offline integrated learning platform, which allows our employees to effectively improve their professional capabilities through various choices of learning methods, including AI training, interactive micro-lessons, and others.

In 2023, we will continue to strengthen the recruitment of technical and professional talent, including but not limited to medical experts, product R&D personnel and digitalization talent, in order to expand its professional talent team. In addition, for executives and core medical professionals, the Group aims to achieve more recruitment and retention through co-creation of vision, setting career development channels and mechanisms for sharing benefits.

5. *By deepening cooperation with upstream suppliers, sharing the Group's industry and management experience, integrating industry resources and promoting the development of industry standards*

The Group will strengthen cooperation with leading upstream enterprises and excellent emerging businesses, and is committed to providing customers with cutting-edge technologies and products through joint R&D of technical materials, sharing technical information and establishing R&D bases, so as to further enhance the core competitiveness of the Company.

The Group has nearly 30 years of extensive experience in the beauty and health industry, and in the past year alone, we have exchanged ideas with over 200 organizations. We hope to increase the openness and transparency of the industry, continuously improve our influence in the industry and further devote ourselves to establishing industry standardization and leading the healthy and sustainable development of the entire industry.

Financial Review

Revenue

The Group generates revenue primarily from three service offerings: (i) traditional beauty services to individual customers at our direct stores. The Group also generates revenue from sales of skincare products (including product sales to consumers in direct stores, and to franchisee stores and others). Additionally, the Group earns franchise fees from our franchisees; (ii) aesthetic medical services (including both (i) non-surgical aesthetic medical services such as energy-based services and injection services and (ii) surgical aesthetic medical services); and (iii) subhealth assessment and intervention services. In addition, the Group earns cooperation fee in relation to subhealth assessment and intervention services. The following table sets forth a breakdown of the Group's revenue by service offerings for the periods indicated:

	For the year ended December 31			
	2022		2021	
	Revenue		Revenue	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Traditional beauty services				
— Direct stores	835,609	51.1	941,357	52.9
— Franchisee and others	111,137	6.8	105,427	5.9
Aesthetic medical services	620,199	37.9	673,025	37.8
Subhealth assessment and intervention services	68,469	4.2	60,931	3.4
Total	<u>1,635,414</u>	<u>100.0</u>	<u>1,780,740</u>	<u>100.0</u>

Due to the Pandemic in 2022, the Group's revenue decreased by 8.2% from RMB1,780.7 million in 2021 to RMB1,635.4 million in 2022.

Traditional Beauty Services — Direct Stores

The revenue of traditional beauty services of the Group generated from direct stores decreased from RMB941.4 million in 2021 to RMB835.6 million, which is primarily attributable to the negative impact of the Pandemic in 2022. To protect the health and well-being of our employees and clients and in support of the efforts to control the spread of the Pandemic, the Group closed or reduced working hours of certain direct stores. As a result, the client visits decreased in 2022.

Traditional Beauty Services — Franchisee and Others

The revenue of traditional beauty services of the Group generated from franchised stores and others increased from RMB105.4 million in 2021 to RMB111.1 million in 2022, primarily due to the expansion of franchisee network of the Group.

Aesthetic Medical Services

The revenue of aesthetic medical services of the Group decreased from RMB673.0 million in 2021 to RMB620.2 million in 2022, primarily due to the negative impact of the Pandemic in 2022, which caused temporary store closures to certain of our CellCare (秀可兒) stores, particularly in cities such as Shanghai, Changchun, Beijing and Shenzhen. As a result, the client visits decreased in 2022.

Subhealth Assessment and Intervention Services

The revenue from subhealth assessment and intervention services of the Group increased from RMB60.9 million in 2021 to RMB68.5 million in 2022, primarily due to continued business expansion of subhealth assessment and intervention services under our continuous monitoring of the demands of the clients, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai and Beijing due to the Pandemic.

Same-Store Sales

The Group closely tracks the revenue generated by our direct stores and our same-store sales growth, to monitor how matured stores have performed over time. The following table sets forth details of the Group's same-store sales for the periods indicated:

	Number of same- stores (a)	For the year ended December 31		Growth rate
		2022	2021	
		Revenue <i>RMB'000</i>	Revenue <i>RMB'000</i>	
Traditional beauty service stores				
— Newly-established stores	21	76,409	84,058	-9.1%
— Developing stores	51	229,704	259,905	-11.6%
— Matured stores	61	475,494	557,651	-14.7%
CellCare stores	17	611,533	671,365	-8.9%
Neology healthcare centers	4	45,387	43,592	4.1%
		<u> </u>	<u> </u>	<u> </u>
Total	154	<u>1,438,527</u>	<u>1,616,571</u>	<u>-11.0%</u>

(a) Referring to stores that were open for more than 300 days in both of the two years under comparison.

Cost of Sales and Services

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

	For the year ended	
	December 31	
	2022	2021
	RMB'000	RMB'000
Products and consumables used	280,981	306,832
Staff costs	292,161	298,724
Depreciation and amortization charges	263,484	246,702
Operation related expenses	72,723	85,219
Others	8,223	9,477
Total	917,572	946,954

The costs of sales and services of the Group decreased from RMB947.0 million in 2021 to RMB917.6 million in 2022, mainly due to a decrease in products and consumables used and staff costs, which were related to a decrease in services provided due to the Pandemic. In addition, the cost of products and consumables purchased overseas decreased due to exchange rate fluctuations during the same period.

Gross Profit and Gross Profit Margin

The gross profit decreased from RMB833.8 million in 2021 to RMB717.8 million in 2022, and the overall gross profit margin decreased from 46.8% in 2021 to 43.9% in 2022. The decrease was mainly due to the negative impact of the Pandemic in 2022, which resulted in temporary closure of stores in various cities across China, including Beijing, Shanghai, Xi'an, Shenzhen and Changchun. The overall gross profit margin decreased because the Group continue to incur fixed costs such as staff costs and depreciation and amortization charges during the period of temporary closure.

Selling Expenses

The selling expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses for our in-house sales and marketing team; (ii) promotion and marketing expenses, primarily include service fees paid to the third-party marketing service providers and celebrities to promote brands and services of the Group; (iii) travelling and office expenses incurred by our in-house sales and marketing team; (iv) miscellaneous expenses incurred to greet customers; and (v) others, primarily represent miscellaneous costs in relation to general sales and marketing activities. The following table sets forth a breakdown of the Group's selling expenses for the periods indicated:

	For the year ended	
	December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	162,335	173,338
Promotion and marketing related expenses	36,547	33,433
Travelling and office expenses	25,317	31,433
Miscellaneous expenses related to customer services	26,335	25,211
Depreciation and amortization charges	14,144	11,089
Others	22,550	24,960
Total	287,228	299,464

The selling expenses of the Group decreased from RMB299.5 million in 2021 to RMB287.2 million in 2022, primarily due to the reduction in staff costs and travelling and office expenses, which are related to the impact of the Pandemic.

R&D Expenses

The R&D expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses for our R&D staff; and (ii) depreciation and amortization charges. The R&D expenses increased from RMB18.0 million in 2021 to RMB31.2 million in 2022, primarily due to an increase in staff costs resulting from an increase in our R&D personnel headcount as we continued our R&D efforts.

General and Administrative Expenses

The general and administrative expenses primarily consist of (i) staff costs, representing share-based compensation expenses, wages, benefits and bonuses for our general and administrative staff; (ii) listing expenses; (iii) consulting and management expenses incurred in relation to audit services, legal services, IT and back office management system as well as other evaluation services; (iv) depreciation and amortization charges in relation to our properties and equipment; (v) reorganization costs; and (vi) others. The following table sets forth a breakdown of the Group's general and administrative expenses for the periods indicated:

	For the year ended	
	December 31	
	2022	2021
	RMB'000	RMB'000
Staff costs	214,438	226,873
Listing expenses	32,649	12,063
Consulting and management expenses	14,731	9,913
Depreciation and amortization	13,347	12,043
Reorganization costs	7,279	—
Others	12,988	11,558
Total	295,432	272,450

The general and administrative expenses increased from RMB272.5 million in 2021 to RMB295.4 million in 2022 primarily because the Group recorded listing expenses of RMB32.6 million in relation to the Listing and the Global Offering in 2022.

Other Income

The other income primarily consists of (i) government grants, representing short-term subsidies received from the local governments in connection with the business development, rewards for financial and employment contribution as well as tax refund; and (ii) rental income primarily derived from the owned properties in Hainan province. The increase in other income from RMB20.7 million in 2021 to RMB29.1 million in 2022 was primarily due to an increase in government grants in relation to the value-added tax additional deduction.

Income Tax Expenses

The income tax expenses of the Group decreased from RMB46.8 million in 2021 to RMB19.9 million in 2022, primarily due to the decrease in the profit before income tax resulting from the negative impact of the Pandemic in 2022.

Profit for the Year

As a result of the above, net profit of the Group decreased from RMB208.3 million in 2021 to RMB110.5 million in 2022. Adjusted net profit decreased from RMB226.7 million in 2021 to RMB157.4 million in 2022.

LIQUIDITY AND CAPITAL RESOURCES

The Group's principal use of cash was for working capital purposes as well as for store expansion and acquisition. The main source of the Group's liquidity was generated from cash flows from operations. Going forward, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from operating activities, bank facilities and net proceeds from the Global Offering. As of December 31, 2022, the Group had cash and cash equivalents of RMB164.1 million and term deposits with initial terms of over three months of RMB119.6 million. A significant portion of the Group's cash and cash equivalents and term deposits are held in RMB. As of December 31, 2022, the Group had unutilized bank facility of RMB100.0 million.

CASH FLOWS

The table below sets out specific figures from the Group's consolidated cash flow statements for the years indicated:

	For the year ended	
	December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	382,000	669,933
Net cash generated from/(used in) investing activities	53,626	(385,347)
Net cash used in financing activities	(432,820)	(271,065)
Cash and cash equivalents at the beginning of the year	157,284	143,538
Cash and cash equivalents at the end of the year	164,120	157,284

INDENTEDNESS

As of December 31, 2022, the indebtedness of the Group mainly included lease liabilities. The Group 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.

GEARING RATIO

The gearing ratio is calculated by dividing the total bank loans and other borrowings by the total equity as at the end of the year. As of December 31, 2022, the gearing ratio of the Group was 54% (as of December 31, 2021: 58%).

CAPITAL COMMITMENTS

As of December 31, 2022, the Group had capital commitments of RMB25.2 million, primarily in connection with leasehold improvements.

ASSETS PLEDGED

As of December 31, 2022, the Group did not have any major assets pledged.

CONTINGENT LIABILITIES

As of December 31, 2022, the Group did not have any material contingent liabilities.

SIGNIFICANT ACQUISITIONS AND DISPOSALS

For the year ended December 31, 2022, the Group did not make any significant acquisitions or disposals of any subsidiaries, associated companies or joint ventures.

EXCHANGE RATES AND RELATED HEDGING

The Group mainly operates in mainland China and is exposed to foreign exchange risk arising from currency exposures with respect to U.S. dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Group does not hedge against any fluctuation in foreign currency.

FUTURE PLAN OF SIGNIFICANT INVESTMENT OR ACQUISITION OF ASSETS

Save as disclosed in the Prospectus, during the year ended December 31, 2022, the Group had no plans for any significant investment or acquisition of capital assets in the future.

EMPLOYEES AND REMUNERATION POLICIES

As of December 31, 2022, the Group had a total of 3,707 full-time employees. In 2022, the total employee welfare expenses amounted to RMB697.1 million, slightly lower than RMB715.1 million in 2021, primarily due to the impact of the Pandemic. In 2022, the Group's equity-settled share-based compensation expenses increased to RMB14.2 million from RMB6.3 million in 2021.

The remuneration package of our employees includes basic salaries, allowances and bonuses. In particular, our physicians, therapists and other service personnel may be remunerated with a bonus that is assessed mainly based on their performance. We have also adopted a number of employee restricted share plans to provide long-term incentives for our employees who have provided outstanding services to us, in order to incentivize and reward the eligible persons who have contributed to our success. We have established various “BeautyFarm Training Centers (美麗田園培訓中心)” where our service personnel could learn service procedures and improve their service quality. Our employees are required to participate pre-work training and will participate in another session prior to their promotion or when we introduce new services. In addition, our employee development model enables us to track the career path of our employees and recognize staff talent through comprehensive analysis generated from clients’ feedback.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	Year ended December 31	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	1,635,414	1,780,740
Cost of sales and services		<u>(917,572)</u>	<u>(946,954)</u>
Gross profit		717,842	833,786
Selling expenses		(287,228)	(299,464)
R&D expenses		(31,187)	(18,029)
General and administrative expenses		(295,432)	(272,450)
Other income	4	29,080	20,727
Other expenses	4	(3,393)	(3,481)
Other gains	5	22,567	18,252
Provision for impairment losses on financial assets		<u>(155)</u>	<u>(1,306)</u>
Operating profit		152,094	278,035
Finance income	6	3,094	1,283
Finance costs	6	<u>(24,713)</u>	<u>(24,216)</u>
Finance costs — net	6	<u>(21,619)</u>	<u>(22,933)</u>
Profit before income tax		130,475	255,102
Income tax expenses	7	<u>(19,943)</u>	<u>(46,761)</u>
Profit for the year		<u>110,532</u>	<u>208,341</u>
Profit attributable to:			
Owners of the Company		103,109	193,475
Non-controlling interests		<u>7,423</u>	<u>14,866</u>
		<u>110,532</u>	<u>208,341</u>
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share (<i>RMB</i>)	8	0.52	0.97
— Diluted earnings per share (<i>RMB</i>)	8	<u>0.52</u>	<u>0.97</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	110,532	208,341
Other comprehensive loss		
<i>Items that will not be reclassified to profit or loss</i>		
Changes in the fair value of equity investments at fair value through other comprehensive income	<u>(27)</u>	<u>(105)</u>
Other comprehensive loss for the year, net of tax	<u>(27)</u>	<u>(105)</u>
Total comprehensive income for the year	<u>110,505</u>	<u>208,236</u>
Total comprehensive income attributable to:		
Owners of the Company	103,082	193,370
Non-controlling interests	<u>7,423</u>	<u>14,866</u>
	<u>110,505</u>	<u>208,236</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		307,704	259,504
Investment properties		71,145	74,538
Right-of-use assets		481,019	451,795
Intangible assets		83,294	90,251
Goodwill		196,286	194,273
Prepayments, deposits and other receivables	10	61,201	55,279
Other non-current assets		2,745	7,103
Financial assets at fair value through other comprehensive income		47	74
Deferred income tax assets		44,165	35,015
Total non-current assets		<u>1,247,606</u>	<u>1,167,832</u>
Current assets			
Inventories		142,287	97,250
Trade receivables	10	37,356	31,316
Prepayments, deposits and other receivables	10	147,226	87,038
Financial assets at fair value through profit or loss		626,864	926,338
Restricted cash	11	10,284	10,254
Cash and cash equivalents	11	164,120	157,284
Term deposits with initial terms of over three months	11	119,646	—
Total current assets		<u>1,247,783</u>	<u>1,309,480</u>
Total assets		<u>2,495,389</u>	<u>2,477,312</u>
EQUITY			
Share capital		7	—
Treasury stock		—*	—
Share premium		84,358	—
Other reserves		2,098	65,439
Retained earnings		102,284	191,924
Equity attributable to owners of the Company		188,747	257,363
Non-controlling interests		14,362	5,173
Total equity		<u>203,109</u>	<u>262,536</u>

* Less than RMB1,000

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		374,523	352,279
Deferred tax liabilities		8,647	8,744
Total non-current liabilities		383,170	361,023
Current liabilities			
Trade payables	12	7,857	15,436
Other payables and accruals	12	224,061	215,062
Contract liabilities	3	1,408,119	1,347,685
Current tax liabilities		33,974	31,876
Lease liabilities		150,979	163,181
Other current liabilities		84,120	80,513
Total current liabilities		1,909,110	1,853,753
Total liabilities		2,292,280	2,214,776
Total equity and liabilities		2,495,389	2,477,312
Net current liabilities		661,327	544,273
Total assets less current liabilities		586,279	623,559

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on February 10, 2022. The address of its registered office is Floor 4, Willow House, Cricket Square, Grand Cayman, KY1-9010, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in providing beauty and health management service, including traditional beauty services, aesthetic medical services as well as subhealth assessment and intervention services in the People's Republic of China (the "PRC").

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on January 16, 2023.

These consolidated financial statements are presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand Renminbi ("RMB'000"), unless otherwise stated.

These consolidated financial statements were approved by the Board on March 29, 2023.

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 throughout the Year, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap.

The preparation of the consolidated Financial Statements 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.

2.1.1 New and amended standards adopted by the Group

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing January 1, 2022:

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to HKAS 16,
- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018–2020
- Reference to the Conceptual Framework — Amendments to HKFRS 3, and
- COVID-19 Related Rent Concessions beyond 30 June, 2021 — Amendment to HKFRS 16 (March 2021) (the "HKFRS 16 Amendment (March 2021)")

The Group also elected to adopt the following amendments early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — amendments to HKAS 12, and
- Disclosure of Accounting Policies — Amendments to HKAS 1 and HKFRS Practice Statement 2.

The adoption of the new standards and amendments listed above did not have material impact on the Group's accounting policies and consolidated financial statements.

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The following new standards and amendments to existing standards have been issued but are not yet effective and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of liabilities as current or non-current	January 1, 2023
HKFRS 17	Insurance Contracts	January 1, 2023
HKAS 1 (Amendment) and HKFRS Practice Statement 2 (Amendment)	Disclosure of Accounting Policy	January 1, 2023
Amendments to HKAS 8	Definition of Accounting Estimate	January 1, 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2.2 Principles of combination

(i) Subsidiaries

Subsidiaries are all entities (including structured 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 and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group not under common control.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized 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 statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Changes in ownership interests in subsidiaries without change of control

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 other reserves within equity attributable to owners of the Company.

3 REVENUE & CONTRACT LIABILITIES

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the service at a point in time and over time and the transfer of goods at a point in time in the following major revenue streams:

	Year ended December 31	
	2022	2021
	RMB'000	RMB'000
Traditional beauty services		
— Direct stores (at a point in time)		
— Services	764,771	857,295
— Product Sales	70,838	84,062
— Franchised and others		
— Product sales (at a point in time)	106,357	101,816
— Franchise fee (over time)	4,780	3,611
	<u>946,746</u>	<u>1,046,784</u>
Subtotal		
Subhealth assessment and intervention services		
— Services recognised at a point in time	49,020	43,772
— Services recognised over time	19,449	17,159
	<u>68,469</u>	<u>60,931</u>
Subtotal		
Aesthetic medical services		
— recognised at a point in time	620,199	673,025
	<u>620,199</u>	<u>673,025</u>
Total	<u>1,635,414</u>	<u>1,780,740</u>

(b) Liabilities related to contracts with customers

(i) *The Group has recognised the following liabilities related to contracts with customers:*

	As at December 31	
	2022	2021
	RMB'000	RMB'000
Contract liabilities — services and product sales	<u>1,408,119</u>	<u>1,347,685</u>

4 OTHER INCOME AND OTHER EXPENSES

	Year ended December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Government grants	21,575	12,624
Rental income	6,693	6,405
Others	812	1,698
	<u>29,080</u>	<u>20,727</u>
Other expenses		
Direct cost in relation to the rental income	3,393	3,481
	<u>3,393</u>	<u>3,481</u>

5 OTHER GAINS — NET

	Year ended December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Net fair value gains on financial assets at fair value through profit or loss	20,695	23,407
Net losses on disposal of property, plant and equipment	(906)	(2,640)
Net foreign exchange gains/(losses)	4,030	(225)
Others	(1,252)	(2,290)
	<u>22,567</u>	<u>18,252</u>

6 FINANCE COSTS — NET

	Year ended December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income on bank deposits	3,094	1,283
Finance costs		
Interest expense		
— Interest charges on borrowings	—	(17)
— Interest charges for lease liabilities	(24,713)	(24,199)
	<u>(24,713)</u>	<u>(24,216)</u>
Finance costs — net	<u>(21,619)</u>	<u>(22,933)</u>

7 INCOME TAX EXPENSES

This note provides an analysis of the Group's income tax expense, presenting how the income tax expense is affected by non-taxable and non-deductible items.

	Year ended December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax — PRC income tax	29,371	44,944
Over provision in prior years	(181)	(1,644)
Deferred income tax	<u>(9,247)</u>	<u>3,461</u>
Income tax expense	<u>19,943</u>	<u>46,761</u>

(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 corporate income tax (“CIT”)

PRC CIT was calculated on the taxable profit for the years at the rates of taxation prevailing in the PRC.

CIT was levied at the reduced rate of 15% for new/high-tech subsidiaries. Certain subsidiaries of the Group met the definition of STE (Small and Thin-profit Enterprises) and entitled to a reduced corporate income tax rate of 5% (2021: 10%).

The Company and its subsidiaries, except for STE and new/high tech subsidiaries and those incorporated in Hong Kong, are generally subject to the PRC standard corporate income tax rate of 25% (2021: 25%).

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% is as follows:

	Year ended December 31	
	2022	2021
	RMB'000	<i>RMB'000</i>
Profit before income tax	<u>130,475</u>	<u>255,102</u>
Tax calculated at the applicable statutory tax rate of 25%	32,619	63,776
Adjustment for tax effect of: Preferential income tax rates applicable to certain companies comprising the Group	(16,151)	(16,985)
Tax effects of expenses not deductible for tax purposes	3,656	1,614
Current income tax filing difference of prior years	<u>(181)</u>	<u>(1,644)</u>
Tax charge	<u>19,943</u>	<u>46,761</u>

The CIT Law and its implementation rules impose a withholding tax at 10% for dividends distributed by a PRC-resident enterprise to its immediate holding company outside PRC for earnings generated beginning January 1, 2008 and undistributed earnings generated prior to January 1, 2008 are exempted from such withholding tax. A lower 5% withholding tax rate may be applied when the immediate holding companies are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. For the year ended December 31, 2022, no PRC withholding tax was accrued since the Group estimated that no earnings generated by its PRC entities would be distributed to the holding companies outside PRC. As at December 31, 2022, the PRC subsidiaries of the Group have undistributed earnings of approximately RMB122,505,000, which if paid out as dividends, would be subject to tax in the hands of the recipient.

8 BASIC AND DILUTED EARNINGS PER SHARE

(i) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during each year. The weighted average number of ordinary shares is calculated based on the assumption that 99,800,000 shares, excluding 3,092,784 treasury shares held for employee share scheme, and 200,000 shares issued and allotted to ZYLot Holdings, issued upon the incorporation of the Company in connection with the Reorganisation were deemed to have been in issue since January 1, 2019. For the year ended December 31, 2022, the 200,000 shares issued and allotted to ZYLot Holdings was included in the weighted average number of ordinary shares by multiplication of the number of days after investment divided by total number of the days during the respective reporting periods.

On January 16, 2023, the Company conducted a 1 to 2 share split and each existing share was split into 2 shares. The calculation of basic and diluted earnings per share for all periods presented was retrospectively adjusted.

	Year ended December 31	
	2022	2021
Profit attributable to Owners of the Company (<i>RMB'000</i>)	103,109	193,475
Weighted average number of ordinary shares in issue	199,922	199,600
Basic earnings per share for profit attributable to the Owners of the Company during the year (<i>expressed in RMB per share</i>)	0.52	0.97

(ii) Diluted

Options granted to employees under the company Option Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required net profit hurdles would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

	Year ended December 31	
	2022	2021
Profit attributable to Owners of the Company (<i>RMB'000</i>)	103,109	193,475
Weighted average number of ordinary shares in issue	199,922	199,600
Adjustments for calculation of diluted earnings per share:	166	—
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	200,088	199,600
Diluted earnings per share for profit attributable to the Owners of the Company during the year (<i>expressed in RMB per share</i>)	0.52	0.97

9 DIVIDENDS

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends declared (a)	198,742	86,677
Proposed final dividend of HK\$0.39 (equivalent to RMB0.34) per share (b)	<u>80,465</u>	<u>—</u>

Note:

- (a) During the years ended December 31, 2022 and 2021, certain companies now comprising the Group declared dividends of RMB198,742,000 and RMB86,677,000 respectively to their then shareholders.

No dividends have been paid or declared by the Company since the incorporation till December 31, 2022.

- (b) A dividend in respect of the year ended December 31, 2022 of HK\$0.39 (equivalent to RMB0.34) per share, amounting to a total dividend of approximately HK\$92.3 million (equivalent to RMB80.46 million), is to be approved at the 2022 annual general meeting of the Company. These consolidated financial statements do not reflect this dividend payable.

10 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (i)		
Trade receivables	39,824	33,809
Less: provision for impairment	<u>(2,468)</u>	<u>(2,493)</u>
Total trade receivables	<u>37,356</u>	<u>31,316</u>
Included in current assets		
Prepayments, deposits and other receivables		
Prepayments for procurement of inventories and operating expenses	42,941	36,494
Prepaid listing expense	39,562	3,792
Amount due from related parties	20,250	10,849
Deposits — current portion	17,785	12,394
Other current assets	12,426	18,162
Other receivables	14,756	5,670
Less: provision for impairment	<u>(494)</u>	<u>(323)</u>
Total prepayments, deposits and other receivables — current portion	<u>147,226</u>	<u>87,038</u>
Included in non-current assets		
Deposits and other receivables		
Deposits — non-current portion	61,291	55,360
Less: provision for impairment	<u>(90)</u>	<u>(81)</u>
Total	<u>61,201</u>	<u>55,279</u>

(i) **Aging analysis of trade receivables**

The majority of the Group's sales are settled through credit cards or e-pay applications against payment. At December 31, the aging analysis of the trade receivables from contracts with customers receivables as at the balance sheet dates based on invoice date was as follows:

	As at December 31	
	2022	2021
	RMB'000	RMB'000
Up to 1 year	37,988	31,888
Between 1 and 2 years	1,338	1,304
Between 2 and 3 years	392	380
Over 3 years	106	237
	<u>39,824</u>	<u>33,809</u>

11 CASH AND BANK BALANCES

	As at December 31	
	2022	2021
	RMB'000	RMB'000
Cash and bank balances		
— Cash on hand	75	42
— Cash at bank	<u>293,975</u>	<u>167,496</u>
	294,050	167,538
Less: restricted cash (<i>note a</i>)	(10,284)	(10,254)
term deposits with initial terms of over three months	<u>(119,646)</u>	<u>—</u>
Cash and cash equivalents	<u>164,120</u>	<u>157,284</u>

(a) Restricted cash represents bank deposits placed by the Group with a bank as a security for prepaid cards issued to customers and is not available for other use by the Group.

(b) The cash and bank balances are denominated in the following currencies:

	As at December 31	
	2022	2021
	RMB'000	RMB'000
RMB	211,950	161,464
USD	77,394	5,049
HKD	3,791	—
EUR	911	884
Others	4	141
	<u>294,050</u>	<u>167,538</u>

12 TRADE AND OTHER PAYABLES AND ACCRUALS

	As at December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables		
— Third parties	<u>7,857</u>	<u>15,436</u>
Other payables and accruals		
Employee benefits payables	91,959	105,943
Listing expenses payable	50,198	10,731
Franchisee deposits	20,596	17,994
Taxes payables	13,237	18,710
Constructions payables	13,104	10,425
Accrual expenses	10,290	12,057
Dividend payable	—	5,521
Others	<u>24,677</u>	<u>33,681</u>
Total other payables and accruals	<u>224,061</u>	<u>215,062</u>

Trade payables are usually paid within 30 days of recognition. The Group's trade payables mainly include payments for finished goods. The credit term for finished goods is usually within 30 days.

The aging analysis of trade payables as at December 31, 2022 and 2021 based on invoice date was follows:

	As at December 31	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	6,640	13,436
1–2 years	485	1,544
Over 2 years	<u>732</u>	<u>456</u>
	<u>7,857</u>	<u>15,436</u>

OTHER INFORMATION

Final Dividend

The Board has resolved to recommend a final dividend of HK\$0.39 per Share for the year ended December 31, 2022, amounting to a total of approximately HK\$92.3 million. The proposed final dividend is subject to the approval of the Shareholders at the AGM and is expected to be payable on or about Thursday, September 28, 2023.

Annual General Meeting

The Company will hold the AGM on Monday, June 19, 2023. A notice convening the AGM will be published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.beautyfarm.com.cn, and will be dispatched to Shareholders in due course.

Closure of Register of Members

In order to determine the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, June 14, 2023 to Monday, June 19, 2023 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Tuesday, June 13, 2023.

In order to determine the entitlement of the Shareholders to the proposed final dividend, the register of members of the Company will be closed from Monday, June 26, 2023 to Wednesday, June 28, 2023 (both days inclusive), during which period no transfers of Shares will be registered. In order to qualify for the proposed final dividend, which is subject to approval of the Shareholders at the AGM, all transfers documents accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at the same address mentioned above before 4:30 p.m. on Friday, June 23, 2023.

Use of Proceeds from Listing

On January 16, 2023, the Company was successfully listed on the Stock Exchange. The net proceeds received by the Group from the Global Offering after deducting underwriting fee and relevant expenses amounted to approximately HK\$447.4 million. The Company intends to apply such net proceeds in accordance with the purposes as set out in the Prospectus.

On February 3, 2023, the over-allotment option was fully exercised. The Company issued 6,080,000 ordinary Shares at the price of HK\$19.32 per Share, and received additional net proceeds of approximately HK\$111.1 million after deducting the underwriting commission and other estimated expenses. For details, please refer to the Company's announcement dated February 5, 2023.

Upon the Listing, such proceeds have been and will be used for purposes in accordance with the future plans set out in the Prospectus. Since the Listing Date, the net proceeds which have not been utilized have been deposited into current deposits or short-term demand deposits with licensed banks and financial institutions as defined under the Securities and Futures Ordinance or the applicable laws in relevant jurisdiction for non-Hong Kong based deposits.

Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions as set out in the CG Code as its own code to govern its corporate governance practices.

Since the Shares were listed on the Main Board of the Stock Exchange on January 16, 2023, the CG Code was not applicable to the Company during the Reporting Period. To the best knowledge of the Directors, the Company has complied with all code provisions set out in Part 2 of the CG Code since the Listing Date and up to the date of this announcement.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to Company or its securities.

Having made specific enquiries of all the Directors, the Company has confirmed that the Directors have complied with the Model Code since the Listing Date and up to the date of this announcement. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group since the Listing Date and up to the date of this announcement.

Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this announcement, the Company has maintained the public float as required under the Listing Rules.

Purchase, Sale or Redemption of Listed Securities of the Company

The Shares of the Company were first listed on the Main Board of the Stock Exchange on January 16, 2023. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the period beginning on Listing Date and up to the date of this announcement.

Audit Committee

The Company has established an Audit Committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of the CG Code. The Audit Committee of the Company consists of one non-executive Director and two independent non-executive Directors being Mr. LIU Teng, Mr. FAN Mingchao and Ms. LI Fangyu, with Mr. LIU Teng being the chairperson of the Audit Committee, who has the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The primary function of the Audit Committee is to assist the Board in providing an independent view of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee, together with the management and external auditor of the Company, has reviewed the accounting principles and policies adopted by the Group and discussed internal control and financial reporting matters, including a review of the audited consolidated financial statements and the annual report of the Group for the Reporting Period, and is of the view that the annual results of the Group is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

Scope of Work of the Auditor

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2022 as set out in this results announcement for the year ended December 31, 2022 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the Reporting Period. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on this results announcement.

Subsequent Events after the Reporting Period

On January 16, 2023, the Company completed its Listing on the Main Board of the Stock Exchange. 24,395,500 new Shares and 16,141,000 sale Shares were offered at the offer price of HK\$19.32 per Shares. The Company received net proceeds of approximately HK\$447.4 million from the Global Offering.

On February 3, 2023, the Company announced that the Over-allotment Option granted under the Global Offering has been fully exercised and the Group allotted 6,080,000 Shares at a price of HK\$19.32 per Share. The Company received an additional net proceeds of approximately HK\$111.1 million from the exercise of the Over-allotment Option. For further details, please refer to the Company's announcements dated January 13, 2023 and February 5, 2023, respectively.

Save as disclosed above, there is no material subsequent event undertaken by the Company or by the Group after the Reporting Period and up to the date of this announcement.

Publication of the Annual Results and 2022 Annual Report

This announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.beautyfarm.com.cn. The annual report of the Company for the year ended December 31, 2022 containing all the information required by the Listing Rules will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

Appreciation

The Board would like to express its sincere gratitude to the Shareholders, management, employees, business partners and customers of the Group for their support and contribution to the Group.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings.

“AGM”	the forthcoming annual general meeting of the Company to be held on Monday, June 19, 2023
“Allergan”	Allergan Plc.
“Audit Committee”	the audit committee of the Board
“Board of Directors” or “Board”	the board of Directors of the Company
“CG Code” or “Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“China” or “the PRC”	the People’s Republic of China, which, for the purpose of this announcement and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“Company”, “our Company”	Beauty Farm Medical and Health Industry Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 10, 2022
“Director(s)”	the director(s) of the Company or any one of them
“Global Offering”	the Hong Kong Public Offering and the International Offering, details of which are set forth in the Prospectus
“Group”, “the Group”, “our Group”, “our”, “we”, or “us”	the Company and 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
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars”, “HK dollars”, “HKD” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

“HKFRS”	Hong Kong Financial Reporting Standards
“IMEIKE”	Aimeike Technology Development Co., Ltd.
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	January 16, 2023, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
“Listing Rules”	the Rules governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Over-allotment Option”	the option to be granted by us to the International Underwriters exercisable by the Overall Coordinators on behalf of the International Underwriters under the International Underwriting Agreement, to require us to allot and issue up to 6,080,000 additional Shares at the Offer Price, representing up to 15% of the total number of Offer Shares initially available under the Global Offering to cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering — Over-allotment Option” in the Prospectus
“Prospectus”	the prospectus of the Company dated December 30, 2022
“Reporting Period”	the year ended December 31, 2022
“R&D”	Research and development
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of our Company with a nominal value of US\$0.000005 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	has the meaning ascribed thereto under the Listing Rules

“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“United States dollars”, “U.S. dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States
%	per cent

By Order of the Board
Beauty Farm Medical and Health Industry Inc.
Li Yang
Chairman and executive Director

Hong Kong, March 29, 2023

As at the date of this announcement, the Board comprises Mr. Li Yang as Chairman and executive Director, Mr. Lian Songyong as executive Director, Mr. Zhai Feng, Mr. Geng Jiaqi and Ms. Li Fangyu as non-executive Directors and Mr. Fan Mingchao, Mr. Liu Teng and Mr. Jiang Hua as independent non-executive Directors.