Raily

Raily Aesthetic Medicine International Holdings Limited

瑞麗醫美國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2135

Annual Report

2020

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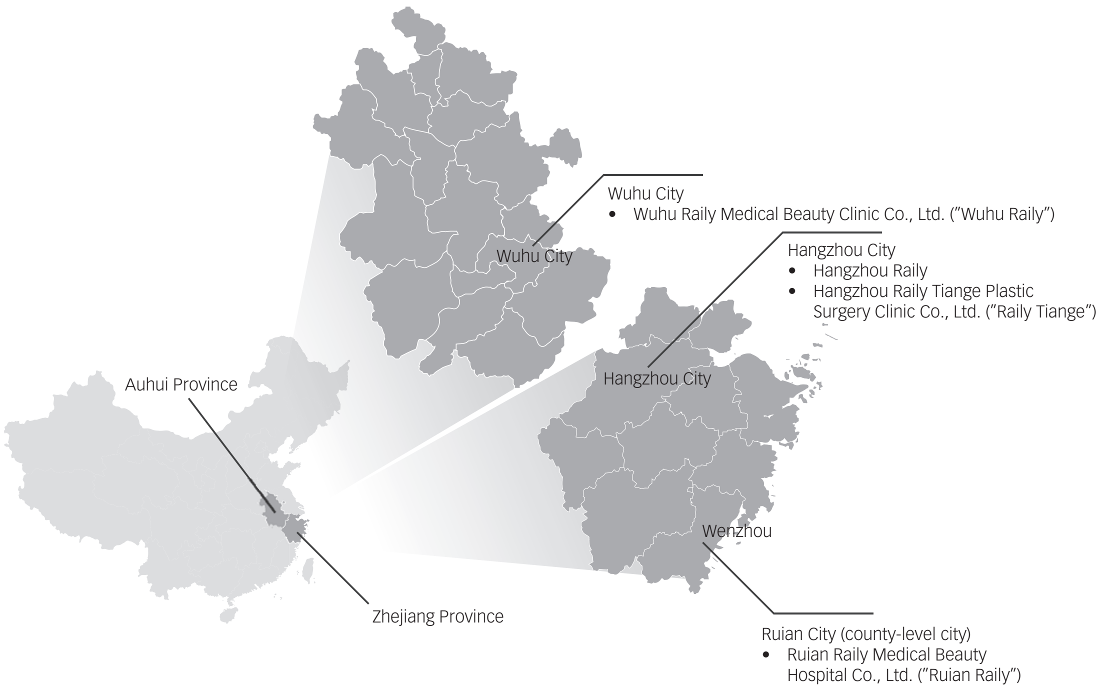
COMPANY PROFILE

Raily Aesthetic Medicine International Holdings Limited (the "Company", together with its subsidiaries "the Group") is a leading aesthetic medical service provider in Zhejiang Province, the PRC. We offer a broad range of aesthetic medical services to our clients to meet their different aesthetic and anti-aging objectives. We are a well-known aesthetic medical institution in the PRC, we own and operate a network of four private for-profit aesthetic medical institutions, three of which are located in Zhejiang Province (Hangzhou City and Ruian City, Wenzhou), and one is located in Anhui Province (Wuhu City). Our flagship institution, Hangzhou Raily Aesthetic Medical Hospital Co., Ltd. ("Hangzhou Raily") is one of the five aesthetic medical institutions in Hangzhou City that were awarded "5A" recognition by the CAPA. Our aesthetic medical services principally include (i) aesthetic surgery services, comprising aesthetic surgical procedures performed on various parts of the face or body; (ii) minimally-invasive aesthetic services, primarily comprising aesthetic injection procedures; and (iii) aesthetic dermatology services, primarily comprising various aesthetic energy-based procedures.



AESTHETIC SURGERY SERVICES

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

MINIMALLY-INVASIVE AESTHETIC SERVICES

Our minimally-invasive aesthetic services are the provision of minimally-invasive procedures involving minimal penetration into the body tissue with no surgical incisions. Such procedures primarily comprise injection of botulinum toxin type A and dermal fillers into different parts of the body and face in order to reduce wrinkles and/or to achieve body or facial contouring. Our main minimally-invasive aesthetic procedures include: *injection of botulinum toxin type A*, injection of botulinum toxin type a drugs, e.g., BTXA, BOTOX®, to facial, subcutaneous or intramuscular layer in order to reduce wrinkles; and *injection of dermal fillers*, injection of dermal fillers to facial, subcutaneous or periosteal layer in order to reduce wrinkles, lift sagging skin and restore volume under the skin.

AESTHETIC DERMATOLOGY SERVICES

Our aesthetic dermatology services primarily comprise energy-based procedures performed with equipment that utilize various forms of energy such as laser, radiofrequency and intense pulsed light for various purposes such as acne and pigments removal, skin rejuvenation, skin lifting and tightening, and hair removal. We strive to provide safe and high quality aesthetic dermatology services with our energy-based devises. All of our major energy-based devises are approved by the NMPA for their safety and effectiveness. In addition, we have implemented a number of safety protocols in relation to the use of the equipment, such as evaluating and assessing by our practitioners before deployment, providing operating brochures for our staff and implementing a maintenance by our suppliers from time to time. Our main aesthetic dermatology procedures include: *mesotherapy*, injecting active substances, such as hyaluronic acid, into the junction of dermis and epidermis through tiny needle of dedicated machine by using the vacuum negative pressure technology with an aim to moisturize and hydrate skin, shrink pores, improve skin tone and lighten fine wrinkles; *picosecond laser*, using laser of picosecond pulse duration with high pulse energy which can accurately blast pigment tissue or tattoo to reduce pigmentation and brighten skin tone; *microneedle therapy system*, using numerous tiny needles on a specially designed roller to make numerous micro channels on the skin in a short period time in order to initiate the self-repairing process of human body with an aim to ease and reduce acne scars, freckles and wrinkles; *Q-switch laser*, using laser of nanosecond pulse duration which can accurately blast pigment tissue or tattoo with selective photothermolysis to reduce pigmentation and brighten skin tone; *laser hair removal*, using the selective photothermal effect of laser to damage hair follicle and the surrounding hair stem cells to achieve hair removal in various parts of the body without irritation to skin; *photo rejuvenation*, using broad-spectrum light which can cover a variety of color bases to ease spots on face and stimulate the rejuvenation of collagen with an aim to improve skin texture, shrink pores, increase skin elasticity and whitening skin; and *thermage*, using a probe to transmit high-energy radiofrequency to deep layer of dermis to denature and constrict the collagen by heat energy, so as to activate the self-repairing process of human body and stimulate the regeneration of collagen with an aim to improve skin texture, shrink pores, increase skin elasticity and whitening skin.

OTHER SERVICES

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

In addition, we provide management consulting services to third party aesthetic medical institutions and aesthetic medical physicians since 2017.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Fu Haishu *(Chairman)*
Mr. Yu Kai
Mr. Song Jianliang

Non-executive Directors

Mr. Xie Lijun
Ms. Fan Qirui

Independent non-executive Directors

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

AUTHORIZED REPRESENTATIVES

Mr. Fu Haishu
Mr. Chan Oi Fat

COMPANY SECRETARY

Mr. Chan Oi Fat

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
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Central
Hong Kong

COMPLIANCE ADVISER

Innovax Capital Limited
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Wan Chai
Hong Kong

HONG KONG LEGAL ADVISER

William Ji & Co. LLP
in Association with
Tian Yuan Law Firm Hong Kong Office
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103 South Church Street
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Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
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183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

Bank of Jiangsu
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Small and Micro-enterprise Sub-branch
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Binjiang District
Hangzhou City
PRC

China Merchants Bank
Hangzhou Future Sci-tech City Sub-branch
1/F, Building 4
Chuangxin Time Plaza
84 Longyuan Road
Yuhang District
Hangzhou City
PRC

STOCK CODE

2135

INVESTOR RELATIONS

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investor.relationship@raily.com

COMPANY'S WEBSITE

http://www.ruilizx.com

MILESTONES

DEVELOPMENT MILESTONES

2008

- In August, the Group acquired Hangzhou Huaren Plastic Surgery Clinic Co., Ltd. (杭州華仁整形外科門診部有限公司) (currently known as Raily Tiange) as our first aesthetic medical institution

2013

- In March, the aesthetic medical business of the Group was expanded to city outside of Hangzhou City by establishing our second aesthetic medical institution, Ruian Raily in Ruian City, Zhejiang Province
- In August, the third aesthetic medical institution of the Group, Hangzhou Raily was established

2015

- In July, the Group established our fourth aesthetic medical institution, Wuhu Raily in Wuhu City, Anhui Province

2016

- In January, the Group was awarded the Special Merit Award (特別榮譽獎) by the CAPA

2017

- In December, the Group commenced to provide aesthetic medical institution management consulting services

2018

- In December, Hangzhou Raily was awarded the 2018 Academic Contribution Award (2018年度學術貢獻獎) and the National A-level Advanced Unit Award (全國創建A等級先進單位獎) by the ZAPA
- Hangzhou Raily was awarded the AliHealth Most Popular Medical Institution Award by AliHealth (阿里健康最受歡迎醫療機構獎)
- Hangzhou Raily was awarded the Popular Aesthetic Medical Merchants (醫美人氣商戶) in Hangzhou City by Meituan (美團)

2019

- In January, Hangzhou Raily was rated as a 5A Aesthetic Medical Institution (5A級醫療美容醫院) by the CAPA
- In March, Hangzhou Raily was awarded A Level Aesthetic Medical Institution in Zhejiang and Standardized Medical Quality Outstanding Contribution Award (浙江省醫療美容機構A等級評價規範醫療質量突出貢獻獎) by the ZAPA
- Hangzhou Raily was awarded the Top Five Lipoplasty/Fat Transfer Hospital (五大脂肪名院) by Soyoung.com (新氧)

2020

- In December, the Group successfully listed on the Stock Exchange of Hong Kong with stock code "2135.HK"

CHAIRMAN'S STATEMENT

Dear Shareholders:

In view of the global outbreak of the COVID-19 pandemic, the global economic growth slowed down in 2020. The various restrictions and preventive measures implemented to control the spread of the pandemic have inevitably affected the business of the aesthetic medical industry. However, in the context of the continuous growth of national GDP and the changing concept of aesthetic medicine, there is an increasing demand for aesthetic medical services in China. During the reporting period, the Group adhered to the business philosophy of "Integrity, Responsibility, Innovation and Future", centered on the core business of aesthetic medical, expanded the scope of services and provided clients with high-quality aesthetic medical services. The Group is committed to minimizing the impact of the pandemic on its business and turning adversity into opportunity.

BUSINESS REVIEW

In order to provide excellence aesthetic medical services to our customer, the Group has recruited experienced physicians and medical staff. As at 31 December 2020, the Group has 70 practicing physicians with an average industry experience over ten years, providing professional and comprehensive aesthetic medical solutions to meet the different special aesthetic and anti-aging needs of clients. Our business covers aesthetic surgery services, minimally-invasive aesthetic services, aesthetic dermatology services and other aesthetic medical services, aesthetic medical management consulting services. Under the vision of "an aesthetic medical group with internationalization, leading technology and first-class services", the Group will continue to improve service quality, brand image and internationalization capabilities, and to operate efficiently.

Despite the outbreak of the COVID-19 pandemic, for the year ended 31 December 2020, the Group still achieved a total revenue of RMB164.5 million, representing a decrease of 13.9% as compared to the year ended 31 December 2019. In 2020, the Group achieved a net profit (including listing expenses of RMB17.0 million) of RMB4.9 million and a net profit attributable to shareholders of listed company of RMB4.3 million, representing a decrease of 52.2% and 57.0% respectively over 2019; the shares of the Company were listed ("Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 December 2020 by way of a global offering "Global Offering"), raising net proceeds from Global Offering including exercise of over-allotment options of approximately HK$81.7 million.

FUTURE OUTLOOK

According to the Frost & Sullivan Report[1], it is expected that the China aesthetic medical services market will grow at a CAGR of 17.1% from 2018 to 2023, being the fastest-growing market among the top ten markets globally; the revenue of aesthetic medical service market of private institutions is projected to reach RMB281.5 billion by 2024, and the aesthetic medical industry of China will achieve significant development[2].

Considering the continuous uncertain development of the pandemic, the business environment of the aesthetic medical service industry is expected to remain challenging in the short term. The Group will continue to optimize the operational efficiency of medical services, improve medical quality and medical safety management, expand the overall scale of operations, increase our market share in the aesthetic medical service industry, and will also enhance our international capabilities and ensure the smooth and orderly business development.

1 *The Group commissioned Frost & Sullivan to prepare an industry report, and quoted certain chapters of which in the prospectus published by the Group on the Hong Kong Stock Exchange on 15 December 2020.*

2 *These forecasts are hypothetical and will be affected by significant public health events, policies and other factors.*

The Group will adopt the following strategies to meet the challenges of the market:

(i) Expanding our aesthetic medical institutions network

We intend to renovate and expand certain areas of our existing aesthetic medical institutions, in order to improve the physical environment of our aesthetic medical institutions and increase our service capacity.

We believe that our market leadership and wide range of capabilities place us in a prime position to capitalise the growing aesthetic medical services market in the PRC. We therefore plan to establish a new aesthetic medical institution which will provide full range of services our Group is currently providing.

In the meanwhile, we are looking for the acquisition opportunities of aesthetic medical institutions that have demonstrated track records of strong performance and good reputations, which we believe will enable us to rapidly replicate our success in new markets at Zhejiang Province.

(ii) Vertical integration through strategic acquisition and investment

We plan to pursue acquisition and investment opportunities for vertical expansion of the supply chain of the aesthetic medical services industry, i.e. investing in or entering into business alliance with upstream suppliers of aesthetic medical consumables or equipment in order to have better costs and quality control of our supplies and broaden our revenue base.

(iii) Acquire new aesthetic medical service equipment and treatment consumables to extend the spectrum of our treatment services offered in our current aesthetic medical institutions

We plan to continue to strengthen our aesthetic surgery services by introducing new technologies by investing advance equipment to improve certain aesthetic medical procedures and by introducing new types of procedures to extend the spectrum of our treatment services offered.

(iv) Actively promote our brand

In order to maintain and promote our brand in both our current and potential markets, we plan to increase our marketing efforts to actively promote our brand by placing more out-of-home advertising and online marketing.

(v) Quality, services and efficiency improvement

Strengthen the Group's medical quality management, medical safety management, legal and internal control management.

As a responsible corporate citizen and a conscience medical group shouldering social responsibilities, the Group understands that investors are paying more and more attention to the practice of sustainable business development. The Group will continue to formulate responsible policies and sustainable development strategies to handle environmental, social and governance issues and create sustainable value for shareholders.

APPRECIATIONS

I would like to take this opportunity to express my sincere gratitude to all directors of the Company (the "Directors") for their excellent governance and supervision, and also to the senior management, professional medical team and employees for their hard work and selfless dedication last year. I would also like to express my heartfelt thanks to all shareholders and business partners for their continued contribution and support.

Fu Haishu
Chairman

26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a leading aesthetic medical service provider in Zhejiang Province, the PRC, and we offer a broad range of aesthetic medical services to our clients to meet their different aesthetic and anti-aging objectives. Our aesthetic medical services principally include (i) aesthetic surgery services, comprising aesthetic surgical procedures performed on various parts of the face or body; (ii) minimally-invasive aesthetic services, primarily comprising aesthetic injection procedures; and (iii) aesthetic dermatology services, primarily comprising various aesthetic energy-based procedures. We have grown our network since our operation commenced in August 2008. As at 31 December 2020, we owned and operated a network of four private for-profit aesthetic medical institutions in the PRC, while three of them were located in Zhejiang Province and one of them was located in Anhui Province.

For 2020, revenue of the Group amounted to approximately RMB164.5 million, representing a decrease of 13.9% compared with approximately RMB191.2 million for 2019. The decrease was generally due to the temporary suspension of the operations of our aesthetic medical institutions from 1 February 2020 until our full scale resumption of operation of all our aesthetic medical institutions on 10 April 2020 to facilitate societal prevention and control of COVID-19 and implementation of our pandemic preventive measures so as to minimize the risk of infection by our clients and staff.

Through our experienced physicians and medical staff, we provide holistic and professional aesthetic medical solutions. As at 31 December 2020, we had 70 physicians who practiced at our aesthetic medical institutions with an average industry experience over ten years. We believe our team of experienced and qualified physicians and medical staff, as well as our stringent safety controls, have underpinned our strong reputation as we continue to attract and retain clients and receive industry recognition for our high-quality services.

We continue to operate online shops on a number of e-commerce online platforms to promote our brand and to sale and market our services. We believe that clients' actual experiences and reviews of our services are exceptionally important in promoting our services to potential clients and establishing confidence in our services among potential clients. One of the key features of these online platforms is that clients can share their good reviews and feedbacks they have experienced with us. This enables us to promote our services and attract clients without incurring extra advertising efforts. As at 31 December 2020, our online shops received an average review rating of 4.0 stars or above out of 5 stars on certain e-commerce online platforms.

In 2020, the total number of our aesthetic medical clients was 73,235, representing an increase of 4.9% from the number of active clients of 69,835 in 2019; among them, the number of new clients was 31,841, accounting for 43.5% of the total number of aesthetic medical clients in 2020.

To a lesser extent, we also provide aesthetic medical management consulting services to aesthetic medical institutions and physicians. Leveraging our years of experience in managing aesthetic medical institutions and our expertise in sales and marketing of aesthetic medical services, we provide consulting services to third parties aesthetic medical institutions in relation primarily to their operations and administration, and sales and marketing; and third parties physicians in relation primarily to their professional biography building, sales and marketing as well as operation and administration of their aesthetic medical business. In 2020, we have provided management consulting services for 12 aesthetic medical institutions.

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

	Year ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	%
Revenue	**164,545**	191,156	(13.9)
Gross profit	**80,171**	101,038	(20.7)
Profit before tax	**11,567**	16,388	(29.4)
Profit for the year	**4,911**	10,277	(52.2)
Attributable to:			
Owners of the parent	**4,251**	9,897	(57.0)
Non-controlling interests	**660**	380	73.7
	4,911	10,277	(52.2)

Non-IFRS Measures

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

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

	Year ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	%
Profit before tax	**11,567**	16,388	(29.4)
Profit for the year	**4,911**	10,277	(52.2)
Adjusted for:			
— Listing expenses	**16,999**	15,316	11.0
Adjusted profit before tax	**28,566**	31,704	(9.9)
Adjusted profit for the year	**21,910**	25,593	(14.4)
Adjusted net profit margin for the year	**13.3%**	13.4%	

PRINCIPAL RISKS AND UNCERTAINTIES

— Medical liability insurance. During 2020, we did not maintain medical liability insurance for our aesthetic medical institutions or our physicians (including employee physicians and contract physicians) and medical staff.

— Brand recognition. We need to maintain and enhance the brand image for a long time, and we believe our success and continued growth depend substantially on our brand, market reputation and consumer perception.

— We rely on the performance of our physicians and staff. Our physicians' and medical staff's treatment performance, communication and relationship with our clients are deemed to be vital to our business.

— Impact of the COVID-19 pandemic. The continuation or recurrence of the COVID-19 pandemic may have a certain impact on the normal operation of the Company, the travel of clients and the consumption of clients in medical institutions.

— We rely on operations in cities where medical institutions are located. If the average spending power of the population in the cities where our medical institutions are located, namely Hangzhou City, Ruian City and Wuhu City, declines or the economic growth in these regions slow down, which may adversely affect our operating results and profitability.

OUR CLIENTS

During 2020, all of our aesthetic medical service clients were individual retail clients, and clients for our management consulting services were aesthetic medical institutions and individual physicians.

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

	Year ended 31 December	
	2020	2019
Aesthetic surgery services		
Number of procedures performed	**5,866**	8,280
Average spending per procedure(1) (RMB)	**6,436**	6,642
Number of active clients	**3,128**	5,184
Average spending per active client(2) (RMB)	**12,070**	10,609
Minimally-invasive aesthetic services		
Number of procedures performed	**49,245**	55,773
Average spending per procedure(1) (RMB)	**994**	1,003
Number of active clients	**20,608**	21,978
Average spending per active client(2) (RMB)	**2,376**	2,545
Aesthetic dermatology services		
Number of procedures performed(3)	**297,956**	238,342
Average spending per procedure(1) (RMB)	**221**	244
Number of active clients	**49,499**	42,673
Average spending per active client(2) (RMB)	**1,330**	1,361

Notes:

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

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

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

OUR SUPPLIERS

During 2020, the supplies required in our operations primarily include implants, injection materials, pharmaceuticals and other medical consumables, and our five largest suppliers include suppliers of injection materials, implants and medical consumables. We have had relationship with our five largest suppliers for one to seven years in 2020.

FINANCIAL REVIEW

Revenue

The following table sets forth our revenue by service offerings in 2020:

	Year ended 31 December				
	2020		2019		
	Revenue	**% of total revenue**	Revenue	% of total revenue	Change
	RMB'000	**%**	RMB'000	%	%
Aesthetic medical services	**161,906**	**98.4**	183,609	96.1	(11.8)
Aesthetic surgery services	**37,754**	**22.9**	54,996	28.8	(31.4)
Minimally-invasive aesthetic services	**48,961**	**29.8**	55,942	29.3	(12.5)
Aesthetic dermatology services	**65,820**	**40.0**	58,092	30.4	13.3
Others (Note)	**9,371**	**5.7**	14,579	7.6	(35.7)
Aesthetic medical management consulting services	**2,639**	**1.6**	7,547	3.9	(65.0)
	164,545	**100.0**	191,156	100.0	(13.9)

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

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

In 2020, our revenue from aesthetic surgery services and minimally invasive aesthetic services was approximately RMB37.8 million and RMB49.0 million, representing a decrease of 31.4% and 12.5% from approximately RMB55.0 million and RMB55.9 million in 2019, respectively. This was primarily due to the COVID-19 pandemic which severely and adversely affected our clients' overall willingness to visit our aesthetic medical institutions and the general consumer spending sentiment in aesthetic medical services. In particular, high spending clients of aesthetic surgery services would require testing of COVID-19 before operations as part of the preventive measures to minimize the risk of infection by our clients and staff. Also, clients of aesthetic surgery services generally stay in aesthetic medical institutions for longer period of time and would require more frequent visits to the institutions compared to other aesthetic medical services to undergo necessary procedures including consultations, various testings before the operation and the operation itself, thereby increasing their exposure and potential risks of infection during the pandemic. Our revenue from aesthetic dermatology services was approximately RMB65.8 million, representing an increase of 13.3% from approximately RMB58.1 million in 2019, as we have strengthened our marketing and promotion efforts on dermatology services in 2020.

COST OF SALES

Our cost of sales mainly included cost of supplies consumed and staff costs. In 2020, our cost of sales was approximately RMB84.4 million (2019: RMB90.1 million).

Our cost of sales by nature is as follows:

	Year ended 31 December				
	2020		2019		Change
	RMB'000	**%**	RMB'000	%	%
Cost of supplies consumed	**48,309**	**57.3**	47,327	52.5	2.1
Staff costs	**29,643**	**35.1**	35,791	39.7	(17.2)
Others	**6,422**	**7.6**	7,000	7.8	(8.3)
	84,374	**100.0**	90,118	100.0	(6.4)

Cost of supplies consumed was our largest component of cost of sales in 2020, which represented mainly the cost of (i) our medical consumables mainly representing implants and auxiliary materials used in our aesthetic surgery services, hyaluronic acid used in our minimally-invasive aesthetic services and skincare products used in our aesthetic dermatology services; and (ii) our pharmaceuticals mainly representing botulinum toxin type A used in our minimally-invasive aesthetic services and other drugs used in our aesthetic surgery services. As dermatology services revenue increased, the consumed supplies increased accordingly.

Staff costs was our second largest component of our cost of sales in 2020, which mainly represented salaries and bonuses paid to our physicians and medical staff. All our aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology procedures are required to be performed by qualified physicians with necessary clinical working experience in accordance with the relevant PRC laws and regulations. Staff cost generally decreased as a result of the temporary suspension of the operations during February to April in 2020.

Other cost of sales mainly included rental, depreciation and travelling expenses which remained stable during 2020.

GROSS PROFIT

In 2020, our gross profit amounted to approximately RMB80.2 million (2019: RMB101.0 million), and our gross profit margin was approximately 48.7% (2019: 52.9%).

The following table sets forth our gross profit and gross profit margin by service offered in 2020:

	Year ended 31 December				
	2020		2019		
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %	Change %
Aesthetic medical services	**79,250**	**48.9**	96,290	52.4	(17.7)
Aesthetic surgery services	**22,551**	**59.7**	38,369	69.8	(41.2)
Minimally-invasive aesthetic services	**17,759**	**36.3**	23,882	42.7	(25.6)
Aesthetic dermatology services	**42,275**	**64.2**	35,213	60.6	20.1
Others *(Note)*	**(3,335)**	**(35.6)**	(1,174)	(8.1)	184.1
Aesthetic medical management consulting services	**921**	**34.9**	4,748	62.9	(80.6)
	80,171	**48.7**	101,038	52.9	(20.7)

In 2020, aesthetic dermatology services were our largest gross profit contributor. We also recorded high gross profit margin of 59.7% (2019: 69.8%) with aesthetic surgery services because it mainly involved staff cost for the performance of surgery by our physicians and assistance to our physicians by medical staff; and lowest gross profit margin with minimally-invasive aesthetic services as they relied largely on the injection materials, which may be manufactured locally in the PRC or imported from overseas. Aesthetic dermatology services, recorded the highest gross profit margin of 64.2% (2019: 60.6%) during 2020 because the combined effect of the decrease in staff cost due to the temporary suspension and the recovery of the market in the 2nd half of 2020. Our overall gross profit margin in 2020 was 48.7%, which is a drop of 4.2 percentage points compared to 2019, primarily because of the further decrease in proportion of gross profit generated from aesthetic surgery services, which was severely and adversely impacted by the COVID-19 pandemic. Further, despite the suspension of operation and the reduced client flow, particularly for aesthetic surgery services, we had to continue to bear our fixed costs, such as staff costs. Gross profit margin for minimally-invasive aesthetic services also affected during 2020.

OTHER INCOME AND GAINS

In 2020, our other income and gains amounted to approximately RMB5.1 million, mainly representing government subsidies of approximately RMB3.2 million, COVID-19 related concession from lessor, investment income of financial investments and interest income.

SELLING AND DISTRIBUTION EXPENSES

In 2020, our selling and distribution expenses amounted to approximately RMB33.1 million (2019: RMB50.2 million), representing approximately 20.1% of our revenue. Our selling and distribution expenses primarily comprised promotion and marketing expenses, and staff costs. We mainly placed advertisements through online advertising on a number of e-commerce online platforms to promote our brand and online shops in order to drive traffic to our aesthetic medical institutions. In 2020, our online advertisements were generally displayed in the forms of videos, advertorials, and banners on websites and/or applications on the e-commerce online platforms. In addition, we promote our brand and services through out-of-home advertising channels, such as billboards. Due to the temporary suspension of operating from February to April in 2020, the promotion and marketing expenses and the staff costs decreased accordingly during 2020.

ADMINISTRATIVE EXPENSES

In 2020, our administrative expenses amounted to approximately RMB37.0 million (2019: RMB33.4 million), representing approximately 22.5% of our revenue. Our administrative expenses primarily comprised listing expenses, staff costs, rental related expenses, utility and depreciation expenses. The increase in administrative expenses was mainly due to the increase of the listing expenses from approximately RMB15.3 million to RMB17.0 million in 2020.

FINANCE COSTS

In 2020, our finance cost amounted to approximately RMB2.4 million (2019: RMB2.3 million). Our finance costs primarily comprised interest on lease liabilities and interest on bank borrowings.

INCOME TAX EXPENSES

Our income tax expenses represented our total current and deferred tax expenses under the relevant PRC income tax rules and regulations. In 2020, our income tax expenses amounted to approximately RMB6.7 million (2019: RMB6.1 million), and our effective tax rates was 57.5% (2019: 37.3%). Our high effective tax rate was mainly due to tax losses and temporary differences not recognised arising from our offshore entities as a result of listing expenses.

PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

Our profit and total comprehensive income for 2020 decreased by approximately RMB5.4 million or 52.2%, from approximately RMB10.3 million for 2019 to approximately RMB4.9 million for 2020.

LIQUIDITY AND CAPITAL RESOURCES

We maintain a strong financial position with cash and bank balance and time deposits of approximately RMB158.9 million as at 31 December 2020. Our net current assets were approximately RMB120.1 million as at 31 December 2020. With the recovery of our normal business operation in the 2nd half of 2020 and the net proceed from the Global Offering, we have adequate liquidity to meet the daily working capital requirements as well as our expansion plans in the coming year. As at 31 December 2020, our Group had unutilised banking facilities for working capital purposes of approximately RMB12 million.

Details of the denomination of the cash and bank balances are set out in Note 24 to the audited consolidated financial statements.

LEASE LIABILITIES

As at 31 December 2020, the Group had lease liabilities of approximately RMB19.2 million (2019: RMB26.4 million).

COMMITMENTS

As at 31 December 2020, our Group had no commitments (2019: RMB2.4 million) relating to the future capital contributions payable.

CAPITAL EXPENDITURES

During 2020, the Group acquired items of plant and equipment amounting to approximately RMB8.6 million (2019: RMB13.4 million).

INDEBTEDNESS

Interest-bearing Bank Borrowings

As at 31 December 2020, our Group had approximately RMB13.0 million outstanding interest-bearing bank borrowings (2019: RMB6.9 million) of which RMB3.0 million are at fixed interest rates (2019: RMB6.9 million).

As at 31 December 2020 and 2019, all of the bank borrowings were repayable within one year and there was no other borrowing as at 31 December 2020 and 2019. All the borrowings are denominated in RMB.

Contingent Liabilities and Guarantees

As at 31 December 2020, our Group had no significant contingent liabilities and guarantees (2019: Nil).

PLEDGE OF ASSETS

The Group's secured bank loans as at 31 December 2020 are secured by the Group's pledged deposits, amounting to approximately RMB10.5 million (2019: secured by debt investments at amortised costs of RMB11.1 million).

SUBSEQUENT EVENTS

On 20 January 2021, the Company issued and allotted 34,040,000 shares at HK$0.4 per share due to the partial exercise of the over-allotment option of the Listing.

GEARING RATIO

Gearing ratio is calculated by dividing total liabilities by total equity as at 31 December 2020 and multiplying the result by 100%. As at 31 December 2020, the Group had total debt of RMB85.6 million and the gearing ratio is 45.8% (2019: 96.3%).

INTEREST RATE RISK

The Group has no significant interest rate risk. Nevertheless, the Group's exposure to the risk of change in market interest rates was primarily from the Group's interest-bearing bank borrowings. As at 31 December 2020, it is estimated that a general increase/decrease of 5 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax by approximately RMB7,000. Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

EXCHANGE RATE FLUCTUATION RISK

We deposit certain financial assets in foreign currencies, which are mainly related to the risk of exchange rate fluctuations between Hong Kong dollars and Renminbi. The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure closely and consider the use of hedging instruments when the need arises.

TREASURY POLICIES

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

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

The Group did not have any significant investments, material acquisitions and disposals of subsidiaries, associates or joint ventures during 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, we had 376 employees in the PRC.

Function	Number of Employees
Management	13
Physicians and medical Staff	198
Sales, marketing and client service Staff	115
Finance and administration Staff	50
Total	376

During 2020, our total staff costs amounted to approximately RMB54.7 million (2019: RMB67.9 million), accounting for approximately 33.3% (2019: 35.5%) of our total revenue in 2020.

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

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

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

USE OF PROCEEDS

The Company was successfully listed on the Stock Exchange on 28 December 2020 (the "Listing"). The net proceeds from the Global Offering including exercise of over-allotment options were approximately HK$81.7 million, which was based on the issuing price of HK$0.4 per share and the actual expenses related to the Listing. After the Listing, these proceeds were and will be used for the purposes in accordance with the future plans as set out in the Prospectus of the Company. Since the Listing Date and up to 31 December 2020, the Group has not utilized any IPO Proceeds.

PROSPECTS

It is expected that the business environment will be still challenging in the coming year until the spread of the COVID-19 is effectively contained.

Since the full resumption of operation of our Group's aesthetic medical institutions in April 2020, we have not received any correspondences or notices from any governmental authorities nor our Directors are aware of any laws, regulations, announcement or notices being issued by any governmental authorities imposing any controls or restrictions in relation to the outbreak COVID-19 that may materially affect the operation of our Group.

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

However, along with the spread of popular culture and celebrity/celebrities effect, and the experience share of key opinions leaders and celebrity/celebrities in social platforms, aesthetic medical services has been fully promoted nowadays. Thus, the society show growing acceptance for aesthetic medical services. Besides, aesthetic medical services have been more popular since people can improve their appearance via the assistance of aesthetic medical services. We are confident to continue our business development and expansion plans as listed in the Prospectus of the Company.

DIVIDEND

The Board resolved not to declare any final dividend for 2020 (2019: RMB12.0 million).

INVESTOR RELATIONS AND FINANCIAL JOURNALS

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

In 2020, due to the inability to visit Hong Kong under the epidemic environment, we organized an online public offering roadshow through the arrangement by the investor relations team, so that investors can have a deep and accurate understanding to the Company's business and ensure that the Company's shareholders have access to us the latest information. With the development of our business, we will continue to update and improve the investor relations system and strive to maintain a high level of investor relations.

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

INFORMATION ABOUT SHARES

Company name	Raily Aesthetic Medicine International Holdings Limited (瑞麗醫美國際控股有限公司)
Place of listing	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	2135.HK
Listing date	28 December 2020
Whole board lot	10,000 shares
Number of issued shares	2,089,040,000 shares

FINANCIAL JOURNALS

The last day of the transfer of registration for 2021 annual general meeting	11 June 2021
Closure of register of members for 2021 annual general meeting	15 to 18 June 2021 (both days inclusive)
2021 annual general meeting	18 June 2021

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Fu Haishu (傅海曙), aged 47, is the founder of our Group, executive Director and Chairman. Mr. Fu is also the chairman of the nomination committee of the Board (the "Nomination Committee") and a member of the remuneration committee of the Board (the "Remuneration Committee"). Mr. Fu is responsible for the overall management, decision-making and strategic planning of our Group. He was appointed as our Director on 2 January 2018 and redesignated as our executive Director and Chairman on 30 May 2019. Mr. Fu is currently a director of Hangzhou Raily Beauty Consultation Co., Ltd. ("Raily Beauty Consultation"), Hangzhou Raily, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli Beauty Consulting Service Co., Ltd. ("Ningbo Zhuerli"), Wuhu Raily Medical Equipment Trading Co., Ltd. ("Raily Equipment"), Guangzhou Yingjieshi Management Consulting Co., Ltd. ("Guangzhou Yingjieshi") and Shenzhen Ruiquan Management Consulting Co., Ltd. ("Shenzhen Ruiquan").

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

Being the founder of our Group, Mr. Fu has more than 12 years of experience in the aesthetic medical industry. Prior to founding our Group, from December 1996 to December 2007, he had served as a surgeon in Ruian Red Cross Hospital (瑞安市紅十字醫院).

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

Mr. Yu Kai (余凱), aged 51, is the executive Director and Chief Executive Officer of our Group. Mr. Yu is responsible for assisting in the overall management and strategic planning of our Group. He was appointed as our executive Director on 30 May 2019 and is currently the Chief Executive Officer of Raily Beauty Consultation, Hangzhou Raily, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment, Guangzhou Yingjieshi and Shenzhen Ruiquan.

Mr. Yu obtained his Bachelor's degree in Commercial Pricing from Hunan University of Commerce (湖南商學院) in June 1993.

Mr. Yu has over 11 years of experience in the healthcare industry. Prior to joining our Group, he worked in Xiangtan Longyang Food Co., Ltd. (湘潭市龍陽食品有限公司), a company primarily engaged in agency work of fast-moving consumer goods from January 2005 to August 2008, where he was in charge of the overall management of the company. From September 2009 to November 2010, he had served as the dean of Shenzhen Sun Aesthetic Surgery Hospital (深圳陽光整形美容醫院), where he was responsible for the overall management of the hospital. He subsequently joined Guangzhou Yuexiu Plastic Surgery Clinic (廣州粵秀整形外科門診部) as the dean from March 2013 to April 2014, where he was responsible for the overall management of the hospital. In June 2015, Mr. Yu founded Guangzhou Yingjieshi, where he served as the deputy general manager until September 2017 and Chief Executive Officer since October 2017. Since October 2017, he has been working as the Chief Executive Officer of Raily Beauty Consultation, Hangzhou Raily, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment and Guangzhou Yingjieshi, where he is responsible for assisting in the overall management and strategic planning of our Group.

Mr. Song Jianliang (宋建良), aged 66, is the executive Director and dean of our four aesthetic medical institutions. Mr. Song is responsible for assisting in the overall management and strategic planning of our Group as well as managing our four aesthetic medical institutions. He was appointed as our executive Director on 30 May 2019. He is currently a supervisor of Raily Beauty Consultation, Hangzhou Raily and the dean of our four aesthetic medical institutions.

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

Mr. Song has over 34 years of experience in aesthetic medical clinical work and hospital management. Prior to joining our Group, he had served as a combat medic in the Wuhan Military Region General Hospital (武漢軍區總醫院) (currently known as the People's Liberation Army Central Military Region General Hospital (中國人民解放軍中部戰區總醫院)) from January 1985. He then worked at Hangzhou Plastic Surgery Hospital (杭州整形醫院) from January 1987 to September 2005 with his last position being the dean of the hospital, where he was responsible for its overall management. He joined our Group in January 2008 and has been working as the dean of our four aesthetic medical institutions.

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

NON-EXECUTIVE DIRECTORS

Mr. Xie Lijun (謝立俊), aged 47, was appointed as our non-executive Director on 30 May 2019. He is responsible for supervising the management of our Group.

Mr. Xie obtained a Bachelor's degree of Economics in International Accountancy from Renmin University of China in July 1997. He further obtained a Master of Accountancy from Research Institute for Fiscal Science of the Ministry of Finance of the PRC (currently known as Chinese Academy of Fiscal Sciences) in November 2000. In June 2011, he completed the approved courses China Venture Capitalists Seminar from Beijing Technology and Business University.

Mr. Xie has over 23 years of experience in financial management and investment banking. Prior to joining our Group, Mr. Xie served as a senior credit analyst in Sino-Hawk Credit Rating Co., Ltd (鵬元資信評估有限公司) (currently known as CSCI Pengyuan Credit Rating Co., Ltd. (中證鵬元資信評估股份有限公司)) from August 1997 to February 2001. He then worked as a deputy general manager in China Great Wall Securities Co., Ltd (長城證券有限責任公司) from February 2001 to January 2008, where he was in charge of the investment banking department of the said company. He subsequently worked in CCB International (China) Limited (建銀國際（中國）有限公司) with his last position held as an executive general manager in CCBI Investment Fund Management Co., Ltd. (建銀創信投資基金管理（北京）有限公司) from January 2008 to June 2012. From March 2015 to June 2018, he joined Orient Asset Management (China) Corporation (中國東方資產管理（中國）有限公司) as a chief executive manager. Since March 2018, he has been a vice chief executive officer in Wonderland International Financial Holdings Limited.

Ms. Fan Qirui (樊啟瑞), aged 37, was appointed as our non-executive Director on 30 May 2019. She is responsible for supervising the management of our Group.

Ms. Fan graduated in from Huazhong University of Science & Technology with a Bachelor's degree of Engineering and a Bachelor's degree of Business Administration in June 2006. Ms. Fan obtained a Master of Business Administration from the Guanghua School of Management of Peking University in July 2019.

Ms. Fan has over 14 years of experience in financial management and investment banking. Prior to joining our Group, Ms. Fan worked as an assistant officer of the asset operation department in China Yangtze Power Co., Ltd. from July 2006 to November 2010. She then worked as a senior manager in China Construction Bank International Heath Care Investment Management (Tianjin) Limited (建銀國際醫療保健投資管理（天津）有限公司) from December 2010. She also served as a senior investment manager in Jianyin Yuanwei Investment Fund Management (Beijing) Co., Ltd. (建銀遠為投資基金管理（北京）有限公司) from June 2011. She subsequently worked for China Resources Hospital Investment (China) Limited (華潤醫院投資（中國）有限公司) as an investment director from February 2013 to December 2015. Since December 2015, she has been working in China Orient Asset Management (International) Holdings Limited (中國東方資產管理（國際）控股有限公司) with her last position as a manager of the medical investment department. Since January 2017, she has been the director and general manager in Qinghai Province Dongfang Tibetan Medicine Industry Investment Management Co., Ltd (青海省東方藏醫藥產業投資管理有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Dequan (曹德全), aged 44, was appointed as our independent non-executive Director on 4 December 2020. Mr. Cao is also the chairman of the Remuneration Committee and a member of each of the audit committee of the Board (the "Audit Committee") and Nomination Committee. Mr. Cao is responsible for supervising and providing independent advice to our Board.

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

Mr. Cao has over 11 years of experience in the aesthetic medical industry. He worked as an assistant researcher in Chinese Centre for Disease Control and Prevention (中國疾病預防控制中心) from May 2003. From September 2009 to August 2014, Mr. Cao became the deputy secretary general of the Chinese Association of Plastic and Aesthetics (中國整形美容協會). He was then reappointed as a secretary general of the same association in January 2015.

Mr. Liu Teng (劉騰), aged 51, was appointed as our independent non-executive Director on 4 December 2020. Mr. Liu is also the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee. He is primarily responsible for supervising and providing independent advice to our Board.

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

Mr. Liu has extensive experience in financial management and investment banking. He worked in Taikang Asset Management (Hong Kong) Company Limited from August 2008 to October 2010. He then worked as an executive director in China Orient International Asset Management Limited from February 2012 to March 2015. From October 2015 to September 2018, he worked in China Universal Asset Management (Hong Kong) Company Limited with his last position held as a deputy chief executive officer.

Ms. Yang Xiaofen (楊小芬), aged 43, was appointed as our independent non-executive Director on 4 December 2020. Ms. Yang is also a member of each of the Audit Committee and Nomination Committee. She is responsible for supervising and providing independent advice to our Board.

Ms. Yang obtained a Master of Law from Tongji University in June 2013. Ms. Yang has over 14 years of experience in the PRC legal industry. She worked in Zhe Jiang Zhehang Law Firm (浙江浙杭律師事務所) from August 2006 to August 2014 with her last position held as a lawyer. She then worked as a lawyer in Zhejiang Dingya Law Firm (浙江鼎亞律師事務所) from August 2014 to March 2018. Since March 2018, she has been a lawyer and the executive head of Zhejiang Zhong Xin Da Law Firm (浙江眾信達律師事務所).

SENIOR MANAGEMENT

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

Name	Age	Position(s)	Roles and responsibilities	Date of joining our Group	Relationship with other Directors and senior management
Mr. Fu Haishu (傅海曙)	47	Chairman and executive Director	Overall management, decision-making and strategic planning	7 August 2008	N/A
Mr. Yu Kai (余凱)	51	Chief Executive Officer and executive Director	Assisting in overall management and strategic planning	1 October 2017	N/A
Mr. Song Jianliang (宋建良)	66	Dean of our four aesthetic medical institutions and executive Director	Assisting in overall management, strategic planning and managing our four aesthetic medical institutions	1 January 2008	N/A
Ms. Zhang Chunxiu (章春秀)	40	Chief Financial Officer	Overseeing our Group's financial matters	1 January 2006	N/A

Ms. Zhang Chunxiu (章春秀), aged 40, is the Chief Financial Officer of our Group. Ms. Zhang is primarily responsible for overseeing our Group's financial matters.

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

Ms. Zhang has over 14 years of experience in financial management. She joined Raily Beauty Consultation as a financial officer from January 2006 to December 2007. Since January 2008, she has been the financial director of Raily Beauty Consultation, Hangzhou Raily, Raily Tiange, Ruian Raily, Wuhu Raily, Ningbo Zhuerli, Raily Equipment and Guangzhou Yingjieshi, where she is responsible for overseeing the financial matters.

For biographical details of Mr. Fu Haishu, Mr. Yu Kai and Mr. Song Jianliang, see the paragraph headed "Executive Directors" above.

COMPANY SECRETARY

Mr. Chan Oi Fat (陳愛發), aged 42, was appointed as our company secretary on 27 November 2020. Mr. Chan obtained his bachelor's degree of business administration in accountancy from City University of Hong Kong in November 2000. He is a member of the Association of Chartered Certified Accountants. He is also a member of the Hong Kong Institute of Certified Public Accountants and a life member of the Hong Kong Independent Non-Executive Director Association.

Mr. Chan has over 12 years of experience in providing professional corporate secretarial services and financial advice to listed companies. From September 2000 to January 2008, Mr. Chan worked in Deloitte Touche Tohmatsu with his last position as audit manager. From January 2008 to March 2018, he served as financial controller and was responsible for the financial and accounting management and company secretarial affairs in Ta Yang Group Holdings Limited (大洋集團控股有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 1991.HK). From June 2014 until now, he serves as the independent non-executive director of Shanghai Prime Machinery Company Limited (上海集優機械股份有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 2345.HK). From February 2018 until now, he serves as the company secretary of China Leon Inspection Holding Limited (中國力鴻檢驗控股有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 1586. HK). In April 2018, he joined SML (Hong Kong) Limited, and served as its financial controller and was later promoted to chief financial officer in April 2019. From July 2020 until now, he serves as the independent non-executive director of China Saftower International Holding Group Limited (中國蜀塔國際控股集團有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 8623. HK).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions set out in the Corporate Governance Code (effective from 1 April 2012) (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

From the Listing Date to 31 December 2020, the Company has complied with all applicable code provisions in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors.

The Company was listed on the Stock Exchange on 28 December 2020 (the "Listing Date"). Therefore, the relevant standards set out in the Model Code were not applicable to the Company during the period from 1 January 2020 to 27 December 2020. The Company has made specific enquiries with all Directors, and all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the period from the Listing Date to 31 December 2020.

BOARD OF DIRECTORS

Composition of the Board of Directors

The composition of the Board during 2020 and up to the date of this report is as follows:

Executive Directors:

Mr. Fu Haishu *(Chairman of the Company)*
Mr. Yu Kai *(Chief Executive Officer of the Company)*
Mr. Song Jianliang

Non-executive Directors:

Mr. Xie Lijun
Ms. Fan Qirui

Independent non-executive Directors:

Mr. Cao Dequan *(appointed on 4 December 2020)*
Mr. Liu Teng *(appointed on 4 December 2020)*
Ms. Yang Xiaofen *(appointed on 4 December 2020)*

The Board currently consists of three executive Directors, two non-executive Directors and three independent non-executive Directors. The Board considers this composition to be balanced and to reinforce a stronger independent review and monitoring function on overall management practices. The Company has adopted a board diversity policy (the "Board Diversity Policy"), the purpose of which is to enhance the effectiveness of the Board and maintain the highest standards of corporate governance and to recognize and maintain the benefits of diversity of the Board. The biographical details and relevant relationships of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 20 to 23 of this report.

BOARD MEETINGS

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

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

DIRECTORS' ATTENDANCE AT BOARD/ BOARD COMMITTEE/GENERAL MEETINGS

From the Listing Date to the date of this report, the attendance of each member of the Board committee meetings, the Board meeting and general meeting are recorded as below:

	Number of meetings attended/Number of meetings held				
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors					
Mr. Fu Haishu	1/1	—	1/1	1/1	0/0
Mr. Yu Kai	1/1	—	—	—	0/0
Mr. Song Jianliang	1/1	—	—	—	0/0
Non-executive Directors					
Mr. Xie Lijun	1/1	—	—	—	0/0
Ms. Fan Qirui	1/1	—	—	—	0/0
Independent non-executive Directors					
Mr. Cao Dequan	1/1	1/1	1/1	1/1	0/0
Mr. Liu Teng	1/1	1/1	1/1	—	0/0
Ms. Yang Xiaofen	1/1	1/1	—	1/1	0/0

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

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

The members of the Board have no financial, business, family or other material/relevant relationship with each other.

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

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

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

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

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

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

Delegation to Management

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

Participation of Directors in Continuous Professional Training

Code Provision A.6.5 of the CG Code stipulates that all Directors must participate in continuous professional development to develop and refresh their knowledge and skills, with the purpose of ensuring that they can continue to make informed and relevant contributions to the Board. The Company is responsible for arranging and funding appropriate training, and placing an appropriate emphasis on the roles, functions and responsibilities of directors of listed companies. All Directors are provided with necessary training and information to ensure that they have a proper understanding of the Company's operations, businesses and market in which it operates as well as his responsibilities under relevant statues, laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole to discharge their duties. The Directors and senior management also meet on a regular basis or as necessary to discuss issues such as operation of the Company, corporate governance policies, and regulatory compliance. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director. All Directors have participated appropriate training before the listing of the Company's Shares on the Stock Exchange to deepen their understanding of the Listing Rules and other relevant laws and regulations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Fu Haishu is the Chairman of the Company, and Mr. Yu Kai is the CEO of the Company. Code Provision A.2.1 in the CG Code stipulates that the roles of chairman and CEO shall be separated and shall not be performed by the same individual. The Company has complied with the such code provision and the power of management is not concentrated in any one individual.

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

All INEDs, Mr. Cao Dequan, Ms. Yang Xiaofen and Mr. Liu Teng, have each entered into an appointment letter dated 4 December 2020, with a term of three years commencing from 4 December 2020, subject to, among others, re-election in accordance with the Company's articles of association.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association (the "Articles"). The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment of directors and assessing the independent non-executive directors.

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

BOARD COMMITTEES

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

- Remuneration Committee
- Nomination Committee
- Audit Committee

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

REMUNERATION COMMITTEE

The composition of the Remuneration Committee is as follows:

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

Executive Director
Mr. Fu Haishu

The Board has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the paragraph B.1 of the CG Code. The primary duties of the Remuneration Committee are to make recommendations to the Board regarding our policy and structure for the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies, and to make recommendations to the Board on the remuneration packages of our Directors and senior management and on the employee benefit arrangement.

From the Listing Date to the date of this report, the Remuneration Committee held one meeting. Details of the attendance of members of the Remuneration Committee at the above-mentioned meetings are set out in the sub-section headed "Directors' Attendance at Board/Board Committee/General Meetings" above.

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

a. Reviewed the remuneration policy, organizational structure and human resources deployment;

b. Reviewed the performance, remuneration and benefits of the Directors and senior management.

NOMINATION COMMITTEE

The composition of the Nomination Committee is as follows:

Executive Director
Mr. Fu Haishu *(Chairman)*

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

The Board has established the Nomination Committee with written terms of reference in compliance with the paragraph A.5 of the CG Code. The primary duties of the nomination committee are mainly reviewing the structure, size and composition of the Board, identifying individuals who are suitably qualified to become a member of the Board, assessing the independence of the independent non-executive Directors, selecting or making recommendations on the selection of individuals nominated for directorships and succession planning for the Directors, in particular, the chairman of the Company and the CEO.

Since the Company's shares have been listed on the Stock Exchange since 28 December 2020, the Nomination Committee did not have any issues to discuss during the relevant period, and therefore did not hold any meeting during the relevant period. The Nomination Committee will fully comply with its terms of reference.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

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

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

From the Listing Date to 31 December 2020, the Audit Committee held one meeting. Details of the attendance of members of the Audit Committee at the above-mentioned meetings are set out in the sub-section headed "Directors' Attendance at Board/Board Committee/General Meetings" above.

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

a. Approved the remuneration and terms of engagement of the Company's external auditors, Ernst & Young;

b. Reviewed the independence and objectivity of the external auditors and the effectiveness of audit procedures according to applicable standards;

c. Reviewed the audit plan of the annual results circulated to them;

d. Reviewed the interim and annual financial statements before submitting to the Board; and

e. Reviewed the audit procedures and risk management and internal control systems of the internal audit department.

The Audit Committee has reviewed and approved the annual results of the Group for 2020 prior to approval by the Board.

AUDITOR'S REMUNERATION

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

	Fees paid/payable RMB'000
Audit services	1,180
Non-audit services	—

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

During the year under review, the remuneration of senior management members by band is set out below:

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

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

DIRECTORS' RESPONSIBILITIES ON FINANCIAL STATEMENTS

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

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 77 of this report.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

The Company has established an internal audit department, and reviewed the risk management and internal control system at least once during the year under review.

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

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

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

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

- appropriate systems of internal control and risk management have been in place for the year ended 31 December 2020 and up to the date of approval of this report.

Procedures and Internal Controls for Handling and Dissemination of Inside Information

In handling and dissemination of inside information, the Group:

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

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

– complies with applicable laws, rules and guidelines on disclosure of inside information issued by Securities and Futures Commission; and

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

BOARD DIVERSITY POLICY

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

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

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

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

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

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

Principles

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

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

Factors and Reasons Behind

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

(1) Business and practical experiences;

(2) Professional skills and expertise;

(3) Gender;

(4) Age; and

(5) Cultural and educational background.

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

NOMINATION POLICY

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

Selection Criteria

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

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

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

(3) Comply with the Company's memorandum and articles of association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(4) Specific skills and experiences:

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

 (b) Past board experience;

 (c) Able to read and interpret financial statements;

 (d) Experience in legal affairs;

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

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

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

Procedures and Processes

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

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

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

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

This policy will be reviewed from time to time.

No meeting was held by the Nomination Committee during the year ended 31 December 2020 as the Shares were only listed on the Main Board of the Stock Exchange on 28 December 2020. From the Listing Date and up to the date of this report, one Nomination Committee meeting was held on 26 March 2021 to review the Board Diversity Policy, review the structure, size and composition of the Board, assess the independence of independent non-executive Directors, consider the Director Nomination Policy and make recommendation to the Board on the re-election of the retiring Directors. All members of the Nomination Committee attended this meeting.

DIVIDEND POLICY

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

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

This policy will be reviewed from time to time.

COMPANY SECRETARY

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

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETING

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

SHAREHOLDERS' RIGHTS

The Way by Which Shareholders Can Convene Extraordinary General Meeting

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

PROCEDURES FOR MAKING ENQUIRIES TO THE BOARD

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

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

Attn: Securities Affairs Department

AMENDMENTS TO CONSTITUTIONAL DOCUMENT

Except for the adoption of the Amended and Restated Memorandum and Articles of Association by the Company with effect from the Listing Date, there had been no changes in constitutional documents of the Company during 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Raily Aesthetic Medicine International Holdings Limited (the "Company") is pleased to publish the Environmental, Social and Governance ("ESG") Report ("this Report"). This Report describes the performance, policies and strategies of the Company and its subsidiaries (collectively referred to as the "Group" or "we" or "us") in terms of sustainable development, environmental protection, employee care and corporate responsibility. We hope to demonstrate our concern for sustainable development and related issues through this Report, listen to the opinions of various stakeholders, and establish a long-term and close relationship with them.

1.1 Reporting Scope

This Report covers the environmental and social performance of the Group from 1 January 2020 to 31 December 2020 (the "Year"). Regarding the key performance indicators related to environmental and social aspects, the Group focuses on the People's Republic of China (the "PRC") to provide (i) aesthetic medical services (including two aesthetic medical hospitals in Hangzhou and Rui'an, and two aesthetic medical out-patient departments in Hangzhou and Wuhu, respectively), and (ii) aesthetic medical management consulting services (including two offices in operation in Hangzhou and Shenzhen).

1.2 Reporting Criteria

The Company has prepared this Report in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"), and has also reported and disclosed according to the provisions of "Comply or Explain".

1.3 Reporting Principles

The content of this Report is determined through stakeholder engagement and materiality assessment process, which includes identifying ESG-related issues, collecting and reviewing the management and stakeholders' opinions, assessing the relevance and materiality of the issues and preparing and validating the information reported. This Report covers all key issues that are concerned by different stakeholders.

Quantitative environmental and social KPIs are disclosed in this Report so that stakeholders are able to have a comprehensive understanding of the Group's ESG performance. Information of the standards, methodologies, references and source of key emission and conversion factors used on these KPIs are stated wherever appropriate. In order to enhance and maintain comparability of ESG performances between years, the Group has strived to adopt consistent reporting and calculation methodologies as far as reasonably practicable. For any changes in methodologies and specific standards, the Group has presented and explained in detail in corresponding sections. The Group will continue to adopt consistent methodologies as far as reasonably practicable in the future, in case of any changes that could affect a meaningful comparison of the KPIs between years.

1.4 Information and Feedback

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

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

2. ESG GOVERNANCE

The Group understands the importance of ESG governance to our sustainable development, and believes that the opinions and participation of various stakeholders are particularly important to ESG governance. Therefore, the Group is committed to understanding the expectations and requirements of stakeholders of the Group and the ESG issues of particular concern from different channels, so as to continuously improve the Group's ESG governance and performance.

2.1 Statement from the Board

The Group believes that good ESG governance strategies and practices are essential to the long-term development of the business and help enhance the value and return of investment. To this end, the board of directors (the "Board") has formulated clear ESG duties and responsibilities, and the Board is responsible for overseeing the implementation of the Group's ESG work. The Board pays attention to the ESG-related issues of the Group, conducts research, analysis and risk assessment on relevant issues in a timely manner, and makes recommendations on the sustainable development direction, policies and goals of the Group to ensure the Group's position and performance in responding to global sustainable development issues can meet the latest and international standards. The Board also regularly meets with department heads to understand the implementation of ESG work by each department in order to continuously improve the Group's ESG strategies and plans. In addition, the compliance department of the Group is responsible for regularly reporting the preparation progress of this Report to the Board to ensure that the content and quality of this Report meet the requirements of the Board.

During the Year, the Group commissioned a third-party ESG professional consultant (the "ESG Consultant") to assist in stakeholder communication and materiality assessment, collect and analyze the opinions of various stakeholders on different ESG issues, and identify the ESG issues that are important to the Group. At the same time, the Group and the ESG Consultants review and discuss the results of the materiality assessment to ensure that the assessment results are consistent with the development direction of the Group.

In order to allow the Group to develop in an orderly manner in the ESG field, the Board will set targets for different ESG issues of the Group in the future. The Board will continue to follow up, coordinate and manage the progress of the ESG work carried out by different departments in accordance with the set goals, so as to promote our ESG management.

2.2 Stakeholder Participation

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

Stakeholder	Expectations	Management response/ communication method
Government and Regulators	• Comply with national policies and laws and regulations • Pay taxes in full and on time	• Regular information reporting • Examination and inspection
Shareholders	• Compliant operation • Enhance corporate value • Transparent information and efficient communication	• General meetings • Email, telephone communication and company website
Partners	• Operation with integrity • Performance of contracts • Mutual benefits	• Business communication • Engagement and cooperation
Customers	• Outstanding services • Operation with integrity	• Customer service center and hotline • Social media platform
Environment	• Dispose of waste according to laws	• Entrust qualified third-party institutions to recycle and process medical waste
Industry	• Promote industry development	• Participate in industry forums
Employees	• Occupational health and safety • Career Development	• Staff communication meeting • Training and workshops
Community and the Public	• Information transparency	• Company website

2.3 Materiality Assessment

In order to clearly formulate the direction of ESG management and development, the ESG Consultant appointed by the Group has assisted in collecting and analyzing the opinions of stakeholders on the Group's ESG issues. Through questionnaire, the Group scored and ranked the stakeholders' concern towards various ESG issues. At the same time, for a more comprehensive review of the material ESG issues to the Group's business, the ESG Consultant also assisted in reviewing internal and external documents and media reports, as well as referencing the materiality map[1] provided by external authorities to identify ESG issues that the industry focuses on. Based on the above scoring and screening results, in conjunction with the professional opinions of the management and the ESG Consultant, the Group finally identified 8 major ESG issues, laying the foundation for the Group's future development in ESG.

ESG category	Major ESG issues
Environment	Waste management
Employment and labour practices	Occupational health and safety
Operating practices	Operational compliance Quality management Customer health and safety Customer service management Information security Customer privacy protection

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

3. ENVIRONMENTAL PROTECTION

The Group is aware of the importance of environmental protection to the sustainable development of the Group and society. Therefore, the Group has spared no effort in environmental protection and is committed to incorporating environmental protection elements into the business management and decision-making process. The Group has established policies related to environmental, social and corporate governance responsibilities, and formulated appropriate ESG risk management measures and internal control systems to ensure that the Group can effectively respond to potential ESG risks.

Compliance with environmental protection laws and regulations formulated by the country is the top priority of the Group's operations. The Group strictly abides by various environmental related laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Water Pollution Prevention Law of the People's Republic of China (《中華人民共和國水污染防治法》) and the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》). During the Year, the Group did not experience any incidents that violated environmental laws and regulations.

3.1 Pollution and Emission Control

3.1.1 Air pollutant control

Since the business of the Group is mainly conducted in aesthetic medical institutions and offices, the Group does not generate any industrial gas emissions. The Group produces only a small amount of air pollutants, mainly from the use of daily office vehicles.

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

Vehicle air pollutants *(Note 1)*	**2020**
Sulfur oxides (kg)	**0.10**
Nitrogen oxides (kg)	**5.42**
Particulate matter (kg)	**0.40**

Note:

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

In order to reduce the additional air pollutants generated by vehicles due to reduced efficiency, the Group regularly conducts maintenance and repairs its vehicles to maintain vehicle efficiency. In addition, the Group encourages its employees to take public transportation and shared transportation to reduce driving vehicles and related air pollutant emissions during commuting.

3.1.2 Wastewater control

As the Group operates aesthetic medical hospitals and out-patient departments, it strictly abides by the Urban Drainage and Wastewater Treatment Regulations (《城鎮排水與污水處理條例》) and the Integrated Wastewater Discharge Standards (《污水綜合排放標準》) and other relevant wastewater discharge laws and regulations to ensure that the wastewater discharged from the hospitals is disinfected at the internal treatment stations and reaches the discharge standard before it is discharged into the municipal sewage treatment system. In order to reduce the additional burden on the environment, we have set up a real-time wastewater monitoring system to cooperate with regular key inspections to ensure that the acidity value, residual chlorine content and the bacteria contents such as Salmonella and Shigella of the discharged wastewater meet discharge standards. In addition, the Group also provides annual wastewater treatment training for employees of the internal wastewater treatment stations to teach wastewater treatment related knowledge, such as wastewater characteristics and hazards, disinfection knowledge, wastewater testing methods, equipment operation and daily maintenance, etc., to ensure the normal operation of the wastewater treatment process.

3.1.3 Waste management

Different hazardous wastes and non-hazardous wastes are generated in the aesthetic medical business of the Group. Therefore, the Group has adopted corresponding waste discharge management and control measures for different wastes to reduce the environmental impact by business operations.

Hazardous waste such as used ink cartridges and batteries generated from the Group's daily office operations are collected and recycled by qualified institutions. At the same time, the Group generates various types of medical waste and substances through its aesthetic medical business, including disposable medical items like needles, cotton pads and other wound dressings, operation machinery, waste blood and blood serum, and other discarded human tissue. In view that improper handling of medical waste can endanger public health and the environment, we pay special attention to the proper handling of medical waste. The Group strictly abides by relevant laws and regulations such as the Medical Waste Management Regulations (《醫療廢物管理條例》) and the Medical Waste Management Measures for Medical and Health Institutions (《醫療衛生機構醫療廢物管理辦法》) of the PRC, and has formed the Hospital Infection Management Committee to formulate clear medical waste management procedures. In order to regulate the proper handling of medical waste by all departments, we have formulated policies including the Medical Waste Management System (《醫療廢物管理制度》) and Medical Waste Storage Management System (《醫療廢物貯存管理制度》), which requires all departments to classify, register and store medical waste in temporary storage points of the hospitals. We regularly transfer the collected medical waste to qualified third-party medical waste treatment companies for subsequent treatment. In addition, the Group has formulated the Emergency Treatment Plan for the Loss, Leakage and Spread of Medical Wastes and Accidents (《醫療廢物發生流失、洩露擴散和意外事故的應急處理預案》) to clarify the response procedures for various emergencies and the division of labour among the responsible departments in emergencies, so as to ensure that relevant government departments can be notified in a timely manner in the event of medical waste leakage, proliferation, and other accidents.

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

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

Waste	2020
Hazardous waste (tonnes) *(Note 1)*	**3**
Intensity of hazardous waste (tonnes/million RMB revenue)	**0.02**
Non-hazardous waste (tonnes)	**38**
Intensity of non-hazardous waste (tonnes/million RMB revenue)	**0.23**

Note:

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

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

3.2 Resource Usage

Energy and water resources are precious to everyone, and they are also indispensable to the business operations of the Group. The Group understands that resources are limited and therefore strives to conserve resources.

In terms of electricity consumption, the Group formulated the Energy Conservation and Emission Reduction Management Policy (《節能減排管理制度》) in accordance with the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) to carry out energy conservation and emission reduction work in a long-term and effective manner, improve resource utilization efficiency, and promote sustainable development. At the same time, the Group believes that energy conservation can only be achieved by addressing it from various aspects. Therefore, the Group implements different energy-saving measures in its daily operations, such as the use of energy-efficient lamps and other electrical appliances, setting up independently controlled lighting switches in different lighting areas, regularly cleaning of lamps and air-conditioner filters, etc., to maintain energy efficiency and reduce unnecessary energy use. The aesthetic medical hospitals and out-patient departments of the Group have also formulated their own energy-saving management plans, which include different electricity-saving measures to regulate the electricity consumption habits of employees and implement the Group's energy-saving concept. For example, employees should turn off lights when there is no one in the office, and do not use air conditioners during non-office hours. The Group also encourages all departments to actively develop and apply new technologies, new processes and new equipment for energy conservation and emission reduction, and encourages the organization of major energy conservation and emission reduction projects to start energy conservation from the business process.

In terms of water consumption, the Group regularly conducts leakage tests on concealed water pipes and checks the readings of water meters to check for hidden water leakage, and inspects overflowing water tanks to find out the cause of blockage. In addition, in order to reduce leakage of tap water and avoid wasting water, the Group uses water-saving faucets and posts water-saving slogans to remind employees to save water at all times.

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

Resource usage	2020
Energy	
Total energy consumption (MWh)	**1,111**
Vehicle fuel consumption (MWh) *(Note 1)*	**69**
Purchased electricity (MWh)	**1,042**
Energy consumption intensity (MWh/million RMB revenue)	**6.75**
Water resources	
Total water consumption (cubic meters)	**8,310**
Water consumption intensity (cubic meters/million RMB revenue)	**50.50**

Note:

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

3.3 Addressing Climate Change

The issue of climate change has attracted international attention in recent years. The Group understands that greenhouse gas emissions will exacerbate climate change, and is therefore committed to adopting different emission reduction measures in terms of business operations to reduce the Group's carbon footprint. In order to reduce emissions from vehicles, the Group provides low-carbon driving training for drivers, such as avoiding sudden acceleration and ensuring that there are no idling vehicles running their engines. For business travel, the Group uses video conferencing as much as possible to replace unnecessary overseas business trips. For unavoidable business travel, the Group will give priority to direct flights. The Group also encourages employees to participate in environmental protection related activities, such as environmental protection activities organized by environmental protection organizations and different environmental protection training courses. The Group leads its employees to participate in emission reduction and environmental protection work to alleviate climate change.

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

Greenhouse gas	2020
Total greenhouse gas emissions (tonnes of carbon dioxide equivalent)	**761**
Direct greenhouse gas emissions (Scope 1) (tonnes of carbon dioxide equivalent) *(Note 1)*	**17**
Energy indirect greenhouse gas emissions (Scope 2) (tonnes of carbon dioxide equivalent) *(Note 2)*	**732**
Other indirect greenhouse gas emissions (Scope 3) (tonnes of carbon dioxide equivalent) *(Note 3)*	**12**
Greenhouse gas emission intensity (tonnes of carbon dioxide equivalent/million RMB revenue)	**4.63**

Notes:

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

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

3. *Other indirect greenhouse gas emissions include emissions from flying out on business trips, waste paper disposal, and energy consumption for treatment of water and wastewater. The information is calculated based on the International Civil Aviation Organization Carbon Emission Calculator and the Reporting Guidance on Environmental KPIs (《環境關鍵績效指標彙報指引》) published by the Hong Kong Stock Exchange.*

4. TALENT MANAGEMENT

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

4.1 Employment and Benefits

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

The Group has formulated a sound human resources system to regulate talent recruitment, employee promotion, remuneration and dismissal. We advocate recruiting or deploying talents internally first, and then recruiting externally, in order to promote existing employees. In order to prevent the misuse of child labour, the Group will check the applicant's ID card, education certificate and other documents to confirm that the applicant's age, identity, education background and appearance are consistent with the documents provided, and meet the minimum legal working age required by the PRC labour laws. If any relevant situation is discovered, the Group will immediately dismiss the relevant personnel responsible for recruitment in violation of the regulations, and properly handle the recruited personnel, and transfer them to the judicial authorities if necessary.

The Group insists on equal employment and has formulated the Equal Employment Policy (《平等僱傭政策》) to ensure that its employees are not discriminated against in any form such as gender, pregnancy, marital status, disability, family status or race, and strive to provide employees with equal and fair promotion opportunities, training and other treatment. If an employee receives unfair treatment such as discrimination, harassment or slander during employment, the employee can report it to the Group through the complaint channel, and the Group will deal with the complaint in a timely manner.

In order to care for employees and motivate them to work actively, the Group provides employees with diversified benefits. We provide five basic social insurances for employees, including pension, medical, maternity, unemployment and work-related injuries, and provide employees with physical examinations every two years. The Group also provides free non-material treatments and surgeries to employees, while material treatments and surgeries only charge the relevant employees the cost of materials. The Group also provides employees with sufficient rest time, as well as personal leave, sick leave, marriage leave, maternity leave, funeral leave, annual leave and other holidays. In addition, the Group lists the weekly and daily working hours of employees in the employee handbook, and pays overtime salaries to employees who need to work overtime to avoid forced labour.

If an employee's resignation is received, the Group will proceed with the appropriate resignation procedures in accordance with the Management System for Employee Resignation (《員工離職管理制度》) and conduct resignation meetings with the resigned employees, to understand the reasons for his/her resignation and his/her comments and suggestions to the Group.

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

4.2 Employment Statistics

As of the end of the Year, the Group has 376 employees in total. The detailed employment information by different categories is as follows:

Employment information	2020 Number of employees (% of total employees)
Gender	
Male	93 (25)
Female	283 (75)
Age	
Below 30	220 (59)
30 to 50	118 (31)
Above 50	38 (10)
Geographical location	
The PRC	376 (100)
Employment type	
Permanent employees	376 (100)

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

Turnover of employees *(Note 1)*	2020 (%)
Gender	
Male	37
Female	44
Age	
Below 30	47
30 to 50	43
Above 50	11
Geographical location	
The PRC	42

Note:

1. *The turnover rate is calculated with reference to Reporting Guidance on Social KPIs (《社會關鍵績效指標彙報指引》) issued by the Hong Kong Stock Exchange. The equation is: number of resigned employees/total number of employees × 100. Due to the Group's business nature, resigned employees include services staff who were unable to pass their probation periods, therefore resulting in a higher turnover rate.*

4.3 Occupational Health and Safety

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

In order to reduce the risk of medical staff from being infected by patients at work, the Group has formulated the Occupational Safety Protection Policy (《職業安全保護制度》) to provide medical staff with measures to prevent and respond to occupational safety hazards. For example, medical staff must wear impervious gloves, masks, goggles and face shields and other personal protective equipment when performing their duties; make sure that there is sufficient light in the clinic to avoid being stabbed or scratched by sharp objects such as needles and blades during invasive treatment; put used sharp objects directly into puncture-resistant and anti-leakage sharps boxes, or use needle handling equipment for safe disposal. In the event that the medical staff accidentally contaminates the skin or mucous membranes by the blood or body fluids of the virus-infected person during their work, or is pierced by a sharp instrument used by the person concerned, the medical staff should immediately treat the wound or contaminated part in accordance with internal guidelines to reduce the virus infection, and immediately arrange professional medical institutions for diagnosis and observation. We understand that the process of processing medical waste will also bring potential safety hazards to employees. Therefore, we disinfect temporary storage sites of medical waste every day and provide the safety protection and emergency handling and other knowledge training for the personnel and management personnel engaged in the classified collection, transportation, temporary storage and disposal of medical waste. In addition to covering work links or activities with major safety risks and hazards, our emergency response procedures also include all possible fires and explosions and other emergencies, we provide employees with detailed emergency handling procedures to minimize the losses caused by emergencies. We organize emergency drills on a regular basis to ensure that employees understand the escape route when an accident occurs and to reduce casualties.

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

Work-related fatalities	2020	2019	2018
Number of work-related deaths (person)	0	0	0
Rate of work-related deaths (%)	0	0	0

Responding to COVID-19 epidemic

In face of the COVID-19 epidemic, the Group is determined to carry out epidemic prevention and anti-epidemic work. In order to protect the health and safety of our employees, the Group has implemented different levels of protective measures according to different locations. For example, disposable medical surgical masks and disinfectants are provided in the office, and disposable protective clothing, disposable medical gloves, protective masks and other equipment are additionally provided in high-risk places such as operating rooms, and protective supplies must be worn and removed according to specific procedures. In addition, the Group also inquires about the recent residence, travel and contact history of clients during the diagnosis and treatment process, reviews their nucleic acid test results and COVID-19-related antibody test reports, etc., to ensure that the clients are not infected with the COVID-19 and prevent the virus from spreading within the Group.

In addition to formulating various preventive and prevention measures, the Group also provides COVID-19-related learning and training to employees to enhance their understanding of COVID-19 and awareness of epidemic prevention.

4.4 Staff Development and Training

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

The Group has established the Performance Management Policy (《績效管理制度》) to provide guidance and assistance for employees to improve their performance and encourage employees to continue to learn and progress at the same time. We formulate different performance goals according to the positions of employees, and in line with the principles of "justice, openness and fairness", teamwork and objectivity, we comprehensively assess the work performance of employees and give them appropriate suggestions for improvement. The results of performance appraisal will serve as an important basis for promotion, position transfer, selection of annual outstanding employees, salary adjustments and year-end bonuses. Employees who consistently fail to meet performance appraisal requirements may be demoted or dismissed.

The Group provides employees with diversified training opportunities, aimed at assisting their overall development, while improving their management capabilities and work efficiency, and enhancing the competitiveness of the Group. Based on the six major training principles of fullness, pertinence, planning, full process, comprehensiveness and follow-up, the Group formulates and strictly implements appropriate training plans for all employees to ensure that all employees participate in the training smoothly.

Our staff training is divided into the following six categories:

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

2. Training for all employees: improve the individual quality and management capabilities or popularize development strategies, new systems and new policies for all employees.

3. TTT training: mainly for our internal trainer team, taught by external teachers, including training system construction, teaching skills, course development, courseware production, etc.

4. Talent echelon training: mainly for the construction of talent echelon for college students and internal reserve cadres, to design career planning, and consist of internal training and external training.

5. Departmental training: job skill improvement training organized by all departments based on the actual work development.

6. External training: expatriate learning arranged for management positions or employees recommended by departments, including full-time, MBA, skill improvement classes and other forms.

During the Year, the training record of the Group is as follows:

Training	2020 Average training hours for employees (% of employees trained)
Gender	
Male	46 (100)
Female	48 (100)
Employment function	
Management	30 (100)
Physician and medical staff	80 (100)
Sales, marketing and customer services staff	20 (100)
Finance, human resources and administration staff	20 (100)

Case sharing-CPR operation drill and training

During the Year, the Group's aesthetic medical hospital in Rui'an organized multiple cardiopulmonary resuscitation ("CPR") operation drills and trainings to consolidate the safety of medical work and familiarize medical staff with CPR operation skills and knowledge to respond to emergency situations. In order to ensure that the trainees receive adequate CPR training, in addition to providing CPR operation videos, trainees also use designated props for operation practice. After completing the training, all trainees have passed the assessment and successfully mastered the CPR operating skills and methods.

5. OPERATING PRACTICES

The major business of the Group is the provision of aesthetic medical services, so providing quality services to clients is the Group's top priority. Therefore, the Group is committed to properly managing the supply chain, providing high-quality services and maintaining good professional ethics.

5.1 Supply Chain Management

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

In the process of selecting suppliers, the Group considers factors such as product quality, product supply, pricing, reputation, service quality and delivery time, and requires suppliers to hold all licenses and permits required to conduct business, including pharmaceuticals GMP certificate, certificate of quality control regulations for drug management, etc. The Group also promotes green procurement, giving priority to purchasing products and services with energy efficiency labels or logos, higher recycling efficiency, less packaging, longer expiration dates, and other products and services that have the lowest environmental impact. In addition to changing the original purchasing habits, the Group also attaches importance to the environmental and social risk management of suppliers. In terms of environment, the Group prefers to cooperate with suppliers with sustainable development, and gives priority to suppliers with ISO50001 energy management system certification, ISO14001 environmental management system certification and low-carbon product certification. In terms of society, suppliers who have a complete supply chain management system and comply with international standards related to social risks such as ISO26000 will be given priority. The Group only selects suppliers that meet the selection criteria to ensure the quality of the purchased materials, reduce the environmental and social risks and impacts that the supply chain brings to the Group, and provide quality services to clients.

The suppliers of the Group are all located in the PRC and comply with the relevant supplier management policies of the Group. The Group purchases aesthetic medical equipment and supplies produced by foreign manufacturers from authorized distributors of foreign manufacturers in the PRC to ensure the quality and legal supply sources of the purchased materials. For most medical supplies, the Group has multiple suppliers to choose from, and the Group closely monitors the performance of the relevant suppliers to manage risks related to the quality and stability of the supply.

5.2 Quality Control

5.2.1 Material acceptance and storage

In order to ensure that the purchased aesthetic medical equipment and supplies can be used safely, the Group strictly abides by the Pharmaceutical Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》) and other relevant laws and regulations on the quality control of medical drugs, and has formulated the Drugs and Inventory Management Policy (《藥品及庫存物資管理制度》). Strict acceptance procedures of medical supplies is carried out, checking on the medical supplies' variety, model, specification, quantity, quality, etc., and unqualified supplies is rejected. For the unqualified materials, the quality controller of the Group will find out the reason for the unsatisfactory quality, take corrective and preventive measures in a timely manner, and provide feedback with relevant suppliers or arrange returns. We adopt different storage and processing methods for the materials that have passed the inspection according to the characteristics of each material. The Group's warehouse management staff will regularly check the material inventory to verify the accuracy of material records, and closely monitor the expiry date of materials to ensure that expired materials will not be used. Once the materials expire or the use period of the aesthetic medical equipment has expired, the Group will handle them in a safe manner in accordance with applicable laws and regulations, and revoke the relevant materials accordingly.

5.2.2 Service quality control system

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

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

— Unify the operating procedures of customer service, complaints and feedback in various aesthetic medical hospitals and out-patient departments;

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

— All aesthetic medical hospitals shall conduct regular medical quality and safety self-examination, assessment and scoring. The Group will conduct assessments ranging from the quality of medical records to the cleanliness of each medical room in order to improve the shortcomings in the service process, thereby enhancing the overall service quality of the Group.

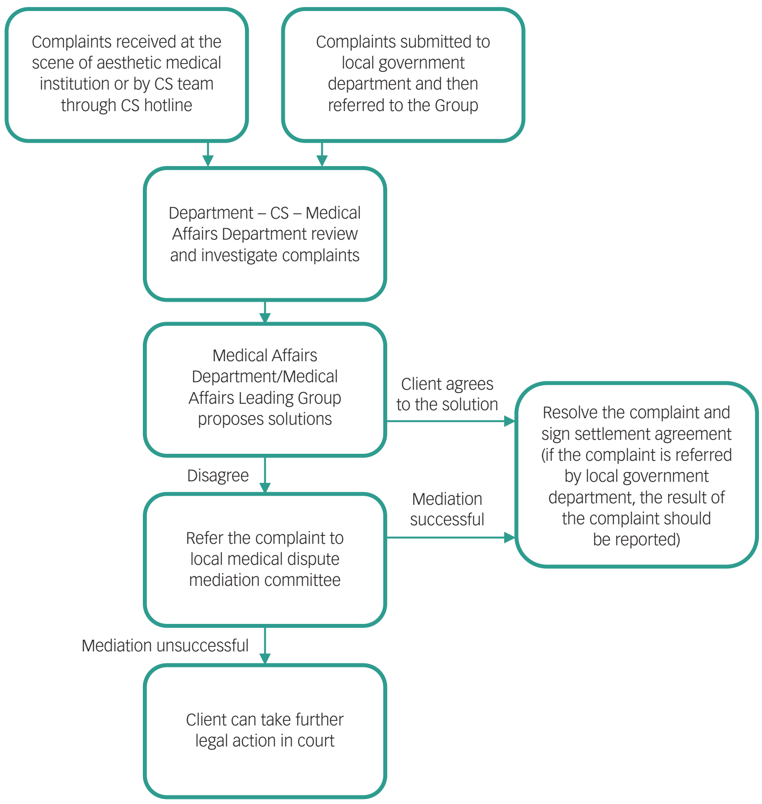
In addition, the Group formulates annual quality control and continuous improvement plans to ensure that the Group maintains a competitive advantage in the aesthetic medical market, continues to develop, and provides better services to clients.

5.2.3 Customer feedback system

The Group operates in a service industry, which requires frequent communication with clients. The Group has been striving for perfection and continuously improving service quality. Therefore, the Group implements a robust client feedback management system to determine the degree of client satisfaction with the Group's services, and actively manage and respond to client feedback. The Group has set up suggestion boxes in all aesthetic medical hospitals and out-patient departments. After completing the service, we will invite clients to fill out a satisfaction survey and actively arranges face-to-face communication with clients to understand their opinions on the service.

In the process of actively soliciting client feedback, the Group may encounter various client concerns and questions, including clients who wish to refund all or part of the service fee before or after the service is provided due to various personal reasons, and are not completely satisfied with our services in different aspects, such as staff attitude, waiting time before receiving services, and discomfort after treatment. The Group will give a detailed explanation to try its best to resolve clients' concerns. The Group has established a complaint management system and process to provide clients with three complaint channels: (i) online and telephone complaints; (ii) on-site complaints (including medical department complaints and consulting department complaints); and (iii) complaints from third-party partners. After receiving medical complaints from clients, the Group will handle the complaints in a rigorous, open, fair, legal and effective manner and look for improvements. The Group will hold meetings every quarter or when necessary to discuss major client complaints and formulate improvement measures.

The main procedures of the Group's complaint management:



During the Year, the Group received a total of 43 client complaints, mainly related to dissatisfaction with the results of the operation and the occurrence of minor complications. After thorough investigation and communication with clients, the Group has made appropriate arrangements for refunds, discounts and free repairs, and all client complaints have been properly resolved.

5.3 Intellectual Property Rights and Customer Data Protection

The Group's business does not involve any proprietary aesthetic medical research and development. However, the Group is still aware of the importance of safeguarding intellectual property rights such as trademark rights and trade secrets, and protects and enforces the Group's intellectual property rights when any potential infringements are discovered. The Group strictly abides by the Tort Liability Law of the People's Republic of China (《中華人民共和國侵權責任法》) and other relevant laws and regulations on intellectual property rights, and has formulated and implemented a series of measures to protect intellectual property rights, including the establishment of a special management department for intellectual property rights, and special training to strengthen employees' knowledge of intellectual property rights, and the use of legal litigation methods to protect the intellectual property rights and resolve intellectual property rights disputes.

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

5.4 Advertising and Marketing

In order to increase the Group's brand awareness and promote its aesthetic medical services to more clients, the Group uses different media advertisements to promote its brand and services. The Group understands that medical advertising is strictly regulated in the PRC, therefore, it strictly complies with the Advertisement Law of the People's Republic of China (《中華人民共和國廣告法》) and the Measures for the Administration of Medical Advertising (《醫療廣告管理辦法》) and other advertising-related laws and regulations. In order to standardize and legally publish medical advertisements, the Group implements the Release of Medical Advertisement Review Policy (《發佈醫療廣告審核制度》), which specifies the specifications, terms and other requirements of the advertisements. The Group also regularly arranges legal consultants to provide employees with advertising-related legal knowledge training to ensure that the advertisements produced comply with legal requirements.

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

— Service prices in marketing activities shall refer to the price list approved by the Group and the supervisors of each aesthetic medical hospital and out-patient departments;

— Discounts offered to clients shall be approved by the head of the sales and marketing team;

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

— After the event, the remaining gifts and registration forms shall be collected and returned to the warehouse after checking.

Managing Inappropriate and Excessive Sales Practices

The Group's remuneration package for employees such as physicians, medical staff and client service personnel includes bonuses that is based on their performance and sales figures. Subsequently, the Group understands that it may face the risk from inappropriate and excessive sales practices, including advising clients to purchase unnecessary or unsuitable or inadequate aesthetic medical procedures, in order to boost sales figures. Such practice and behaviour may adversely affect the Group's market reputation and consumer perception, weakening the consumers' affinity towards the brand, thereby deteriorating the level of trust among clients and potential clients in the Group's services. In order to avoid unscrupulous, inappropriate and excessive sales practices, the Group has adopted a series of control measures, including:

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

2. a registration form is required to be filled and signed by clients to state their personal information as well as the reasons of accepting our aesthetic medical services;

3. prior to the performance of any procedure, physicians responsible for the operation will confirm the identity of the client and explain to the client the objective and processes of the operation, medical risks, possible side effects, normal recovery period, answer any questions the client may have and ask the clients to sign a consent form;

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

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

5.5 Anti-Corruption

In order to maintain the stability of the corporate development and clients' confidence, the Group harshly cracked down on corruption and other unethical behaviors. Therefore, the Anti-Corruption and Other Fraud Policy (《反貪污腐敗等舞弊制度》) was established to provide employees with guidelines for ethical conduct. The policy aims to regulate the behavior of employees in the performance of their duties, and encourage all employees to strictly abide by the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), Code of Conduct for Medical Institution Practitioners (《醫療機構從

業人員行為規範》) and other anti-corruption related laws and regulations and professional ethics standards, and establish a good culture of integrity and self-discipline, to prevent the occurrence of behaviors that harm the interests of the Group and its stakeholders. In addition to clearly explaining corruption and providing anti-corruption prevention and control measures in relevant systems, the Group also assigns a dedicated department responsible for the implementation of the Group's anti-fraud work, as well as providing whistle-blowing channels for all stakeholders of the Group to report anonymously suspicious or actual fraud. After receiving the report, the Group will promptly carry out investigations and take remedial measures, and review the loopholes in the original procedures, so as to improve the effectiveness of internal control and prevent the recurrence of corruption. Once the investigation is true, any employee who violates the Group's anti-corruption policies will be dismissed. If necessary, the Group will seek assistance from local judicial authorities. In the future, the Group will hold various anti-corruption-related activities and trainings to strengthen internal anti-corruption awareness.

During the Year, the Group did not experience any case of violation of laws and regulations on bribery, corruption, extortion, fraud and money laundering.

6. COMMUNITY INVESTMENT

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

The Group pays special attention to the rights and interests of disabled individuals and hopes to help them integrate into society without discrimination. Therefore, the Group has formulated comprehensive management measures for the employment of disabled individuals to provide them with equal job opportunities, treatments and benefits. During the Year, the Group's aesthetic medical hospital in Hangzhou hired two hearing-impaired individuals to provide them with a six-month work experience, and took this opportunity to listen to the feelings of disabled individuals and improve relevant employment and welfare policies.

Looking to the future, the Group expects to expand its community investment areas to benefit more people in need in the community.

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

ESG Indicator	Description	Chapter	Page no.
A. Environment			
A1 Emissions			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to waste gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste, etc.	3. Environmental Protection	41-45
A1.1	Types of emissions and related emissions data.	3.1 Pollution and Emission Control	41-43
A1.2	Direct and indirect energy greenhouse gas emissions and intensity.	3.3 Addressing Climate Change	45
A1.3	Total amount and intensity of hazardous waste generated.	3.1 Pollution and Emission Control	41-43
A1.4	Total amount and intensity of non-hazardous waste generated.	3.1 Pollution and Emission Control	41-43
A1.5	Description of the emissions targets established and the steps taken to achieve them.	3.1 Pollution and Emission Control 3.2 Resource Usage	41-44
A1.6	Description of the methods used to treat hazardous and non-hazardous waste, as well as description of the established waste reduction goals and the steps taken to achieve these goals.	3.1 Pollution and Emission Control	41-43
A2 Resource usage			
General disclosure	Policies for effective use of resources.	3.2 Resource Usage	43-44
A2.1	Total direct and/or indirect energy consumption and intensity by type.	3.2 Resource Usage	43-44
A2.2	Total water consumption and intensity.	3.2 Resource Usage	43-44
A2.3	Description of the energy efficiency goals established and the steps taken to achieve these goals.	3.2 Resource Usage	43-44
A2.4	Description of availability of the applicable water source as well as the water efficiency improvement plan and the results obtained.	3.2 Resource Usage	43-44
A2.5	Total amount of packaging materials used in the finished products and the amount per production unit.	Since the major business of the Group is to provide aesthetic-related services and related management consulting services, it does not involve the use of any packaging materials.	—

ESG Indicator	Description	Chapter	Page no.
A. Environment			
A3 Environment and natural resources			
General disclosure	Policies to reduce the issuer's significant impact on the environment and natural resources.	3. Environmental Protection	41-45
A3.1	Description of the significant impact of business activities on the environment and natural resources and the actions taken to manage the impact.	3. Environmental Protection	41-45
A4 Climate change			
General disclosure	Policies to identify and respond to major climate-related issues that have and may have an impact on the issuer.	3.3 Addressing Climate Change	45
A4.1	Description of major climate-related issues that have and may have an impact on the issuer and response actions.	By conducting risk assessments related to climate change and considering the nature of the business of the Group, the Group has identified that climate change will not have a significant impact on business operations.	—
B. Society			
B1 Employment			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4.1 Employment and Benefits	46
B1.1	Total number of employees by gender, type of employment, age group and region.	4.2 Employment Statistics	47
B1.2	Employee turnover by gender, age group and region.	4.2 Employment Statistics	47

ESG Indicator	Description	Chapter	Page no.
B. Society			
B2 Health and safety			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.3 Occupational Health and Safety	48-49
B2.1	Number and rate of work-related deaths in each of the past three years.	4.3 Occupational Health and Safety	48-49
B2.2	Number of working days lost due to work-related injuries.	4.3 Occupational Health and Safety	48-49
B2.3	Description of occupational health and safety measures adopted, as well as related implementation and monitoring methods.	4.3 Occupational Health and Safety	48-49
B3 Development and training			
General disclosure	Policies to improve employees' knowledge and skills in performing their duties. Description of training activities.	4.4 Staff Development and Training	49-50
B3.1	Percentage of trained employees by gender and employment category.	4.4 Staff Development and Training	49-50
B3.2	Average number of training hours completed by each employee by gender and employment category.	4.4 Staff Development and Training	49-50
B4 Labour standards			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	4.1 Employment and Benefits	46
B4.1	Description of measures to review recruitment practices to avoid child labour and forced labour.	4.1 Employment and Benefits	46
B4.2	Description of steps taken to eliminate the situation when a violation is discovered.	4.1 Employment and Benefits	46

ESG Indicator	Description	Chapter	Page no.
B. Society			
B5 Supply chain management			
General disclosure	Policies to manage the environmental and social risks of the supply chain.	5.1 Supply Chain Management	51-52
B5.1	Number of suppliers by region.	5.1 Supply Chain Management	51-52
B5.2	Description of the practices for engaging suppliers, the number of suppliers to whom the practices are implemented, and the implementation and monitoring methods of the practices.	5.1 Supply Chain Management	51-52
B5.3	Description of the practices for identifying environmental and social risks in each link of the supply chain, and the related implementation and monitoring methods.	5.1 Supply Chain Management	51-52
B5.4	Description of the practices for promoting the use of environmentally friendly products and services when selecting suppliers, and the related implementation and monitoring methods.	5.1 Supply Chain Management	51-52
B6 Product liability			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	5. Operating Practices 5.2 Quality Control 5.3 Intellectual Property Rights and Customer Data Protection 5.4 Advertising and Marketing	51-56
B6.1	Percentage of the products sold or delivered that must be recycled for safety and health reasons.	The major business of the Group is of a service nature, so it does not involve recycling products.	—
B6.2	Number of complaints received about products and services and the handling methods.	5.2 Quality Control	52-54
B6.3	Description of the practices related to the maintenance and protection of intellectual property rights.	5.3 Intellectual Property Rights and Customer Data Protection	55
B6.4	Description of the quality assurance process and product recycling procedures.	5.2 Quality Control	52-54
B6.5	Description of the consumer data protection and privacy policies, and the related implementation and monitoring methods.	5.3 Intellectual Property Rights and Customer Data Protection	55

ESG Indicator	Description	Chapter	Page no.
B. Society			
B7 Anti-corruption			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing from bribery, extortion, fraud and money laundering.	5.5 Anti-corruption	**56-57**
B7.1	Number of concluded lawsuits regarding corruption brought against the issuer or its employees during the reporting period and the results of the lawsuits.	5.5 Anti-corruption	**56-57**
B7.2	Description of the preventive measures and reporting procedures, as well as the related implementation and monitoring methods.	5.5 Anti-corruption	**56-57**
B7.3	Description of the anti-corruption training provided to directors and employees.	The Group has not held anti-corruption related trainings during the Year	—
B8 Community investment			
General disclosure	Policies related to community participation to understand the needs of the community in which the issuer operates and to ensure that its business activities will take into account the interests of the community.	6. Community Investment	**57**
B8.1	Focusing on the category of contribution.	6. Community Investment	**57**
B8.2	Resources used in the focus field.	6. Community Investment	**57**

DIRECTORS' REPORT

The Board is pleased to submit the Group's annual report and the audited consolidated financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Group is a leading aesthetic medical service provider in Zhejiang Province, the PRC, providing clients with a broad range of aesthetic medical services to meet their different aesthetic and anti-aging objectives. In 2020, the main continuing business of the Group was the provision of aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services. Details of the key subsidiaries of the Group in 2020 are set out in Note 1 to the audited consolidated financial statements.

SUMMARY OF RESULTS

The results of the Group in 2020 are set out in the consolidated income statement on page 79 of this report.

The Group's revenue and results are mainly derived from the aesthetic medical services provided by 4 aesthetic medical institutions. A detailed review of the business development of the Group in 2020 and possible future outlook are set out in the section "Management Discussion and Analysis" of this report.

FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group is set out on page 154 of this report. This summary does not form part of the audited consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 is set out in the section "Management Discussion and Analysis" on pages 9 to 18 of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During 2020, the Group was not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

RELATIONSHIP WITH STAKEHOLDERS

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

Employees

As of 31 December 2020, the Group has 376 employees, all of whom are located in the PRC. Specifically, 13 management staff, 198 physicians and medical staff, 115 sales, marketing and client service staff, 50 finance and administration staff. We believe we have a good relationship with our employees. Our employees are not represented by a labour union. During 2020, we have not experienced any material disruptions to our business operations due to labour disputes or strikes. We contribute to social security insurance and housing provident funds for our employees under relevant PRC laws, rules and regulations.

In addition to direct employment, during 2020, we entered into labour dispatch agreements with two independent third party employment agents, the staff dispatched to us by these employment agents included physicians, medical staff and sales and marketing staff. Our Directors consider that the labour dispatch arrangement enabled us to maintain a sufficient while flexible level of labour force to meet our operation requirements. We value the importance of maintaining a safe, healthy and efficient work environment for all of our employees. We place significant emphasis on employee trainings and development, and we invest in education and training programs for our employees with the purpose of upgrading their knowledge on the latest development of the aesthetic medical industry.

Customers

During 2020, all of our aesthetic medical service clients were individual retail clients, and clients for our management consulting services were aesthetic medical institutions and individual physicians. Our high quality services and stringent safety controls have translated into our low number of client complaints and high number of repeat clients. Depending on the needs of our clients, the nature of aesthetic medical services offered, the relevant promotional offer during campaigns and events and our physicians' recommendation after consultation with our clients, clients may purchase one-off service session, multiple service sessions of a single procedure or multiple types of procedures to achieve the desired aesthetic results.

Suppliers

The supplies required in our operations primarily include implants, injection materials, pharmaceuticals and other medical consumables.

MAJOR CUSTOMERS AND SUPPLIERS

In 2020, all of our aesthetic medical service clients were individual retail clients, and clients for our management consulting services were aesthetic medical institutions and individual physicians. In 2020, the total revenue or sales attributable to the five largest clients of the Group accounted for less than 30% of the total revenue of the Group.

The supplies required in our operations primarily include implants, injection materials, pharmaceuticals and other medical consumables. In 2020, purchase amount from the five largest suppliers of the Group accounted for approximately 53.6% of the Group's total purchase amount; and purchase amount from the largest supplier of the Group accounted for approximately 53.6% of the Group's total purchase amount.

In 2020, to the best knowledge of the Directors, none of the Directors, their close associates, or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest clients or suppliers.

PROPERTIES AND EQUIPMENT

Details of the changes in the properties and equipment of the Group for the year ended 31 December 2020 are set out in Note 13 to the audited consolidated financial statements.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Friday, 18 June 2021. A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021, both days inclusive, in order to determine the identity of the shareholders of the Company who are entitled to attend the forthcoming AGM to be held on Friday, 18 June 2021. To be eligible for attending and voting at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 11 June 2021.

RESERVES

The changes in the Group's reserves during 2020 are set out in the consolidated statement of changes in equity on page 83.

DIVIDENDS

During 2020, the Board did not distribute dividends to the shareholders of the Company (2019: dividends of RMB12.0 million).

SUBSIDIARIES

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

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

Since the Listing Date and up to 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

SHARE CAPITAL

Details of the changes in the Company's share capital during 2020 are set out in Note 30 to the Financial Statement.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

PERMITTED INDEMNITY PROVISION

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

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

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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

DIRECTORS

The Directors during 2020 and up to the date of this report are as follows:

Executive Directors

Mr. Fu Haishu *(Chairman)*
Mr. Yu Kai *(Chief Executive Officer)*
Mr. Song Jianliang

Non-executive Directors

Mr. Xie Lijun
Ms. Fan Qirui

Independent non-executive Directors

Mr. Cao Dequan *(appointed on 4 December 2020)*
Mr. Liu Teng *(appointed on 4 December 2020)*
Ms. Yang Xiaofen *(appointed on 4 December 2020)*

DIRECTORS' SERVICE CONTRACTS

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

EMOLUMENT POLICY

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

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

INDEPENDENCE CONFIRMATION LETTERS FORM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

MANAGEMENT CONTRACTS

In 2020, the Company did not enter into any contract, other than the service contracts with the Directors or any person engaged in the full-time employment of the Company, whereby any individual, firm or body corporate undertakes the management and administration of the whole, or any substantial part of any business of the Company.

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

Save as disclosed in this report, there were no transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or the controlling shareholders of the Company had a material interest, whether directly or indirectly, as at 31 December 2020 or in 2020 from the Listing Date and up to 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

As at 31 December 2020, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Section XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name	Capacity/Nature of interests	Number of shares held	Approximate percentage of the interest in the Company[1]
Mr. Fu Haishu[2]	Interest in a controlled corporation	1,109,283,463	53.98%

Notes:

1. *The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2020 (i.e. 2,055,000,000 shares).*

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

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

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

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to be owned under the relevant provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR BONDS

Save as disclosed in this report and the prospectus, none of the Company, any of its holding companies, subsidiaries or fellow subsidiaries have entered into any arrangement at any time during 2020, so that the Directors or chief executives of the Company or any of their respective spouses or children under the age of 18 may gain benefits by purchasing shares or bonds of the Company or any other corporate.

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

As at 31 December 2020, the interests or short positions of substantial shareholders of the Company and other persons in the shares or underlying shares of the Company as recorded in the register maintained by the Company under Section 336 of the SFO, or otherwise notified to the Company were as follows:

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

Name	Capacity/Nature of interests	Number of shares held	Approximate percentage of the interest in the Company[1]
Ruide Consultation Limited	Beneficial owner	1,109,283,463	53.98%
Jin Chunmiao[2]	Interest of spouse	1,109,283,463	53.98%
Beauty Milkway (HK) LIMITED	Beneficial owner	129,128,745	6.28%
China Orient Asset Management (International) Holding Limited[3]	Interest in a controlled corporation	112,244,454	5.46%
China Orient Asset Management Co., Ltd.[3]	Interest in a controlled corporation	112,244,454	5.46%
Dong Yin Development (Holdings) Limited[3]	Interest in a controlled corporation	112,244,454	5.46%
Huamei Medical Investment Fund Limited[4]	Investment manager	112,244,454	5.46%
Li Gang[4]	Interest in a controlled corporation	112,244,454	5.46%
Wise Leader Assets Ltd.[3]	Interest in a controlled corporation	112,244,454	5.46%
上海東嫿健康管理合夥企業（有限合夥）[3]	Beneficial owner	112,244,454	5.46%
東方資產管理（中國）控股有限公司[3]	Interest in a controlled corporation	112,244,454	5.46%
深圳東方創業投資有限公司[3]	Interest in a controlled corporation	112,244,454	5.46%
深圳前海財富東方股權投資基金管理有限公司[3]	Interest in a controlled corporation	112,244,454	5.46%
青海省東方藏醫藥產業發展基金（有限合夥）[3]	Interest in a controlled corporation	112,244,454	5.46%
青海省東方藏醫藥產業投資管理有限公司[3]	Interest in a controlled corporation	112,244,454	5.46%

Notes:

1. *The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2020 (i.e. 2,055,000,000 shares).*

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

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

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

4. *According to information available to the Company, 112,244,454 Shares are held by Huamei Medical Investment Fund Limited in the capacity of investment manager. Huamei Medical Investment Fund Limited is indirectly wholly owned by Wonderland International Financial Holdings Company which is directly owned by Hua Zhi Investment Limited as to approximately 57.09%. Hua Zhi Investment Limited is ultimately owned by Mr. Li Gang as to approximately 51.73%.*

   Mr. Li Gang is deemed to be interested in 112,244,454 Shares held by Huamei Medical Investment Fund Limited.

Save as disclosed above, as at 31 December 2020, there are no other interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

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

The total number of shares available for issue under the Share Option Scheme and the old share option scheme of the Company is 205,500,000 shares of the Company, representing approximately 9.84% of the total number of shares of the Company in issue as at the date of this report.

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

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

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

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

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

(iii) the nominal value of a Share.

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

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

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

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

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

No options had been granted or agreed to be granted under the Share Option Scheme during the year and up to the date of this report. The Company did not have any outstanding share options, warrants and convertible instruments into shares as at 31 December 2020 and up to the date of this report.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during 2020 are set out in note 35 to the financial statements. Such transactions were either (i) fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules; or (ii) did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background and Reasons

We are a leading aesthetic medical service provider in Zhejiang Province, the PRC. According to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (the "2020 Negative List"), medical institutions may not be held 100% by foreign investments, and foreign investments are restricted to the form of sino-foreign equity joint venture. In view of the foreign ownership restriction, our provision of aesthetic medical services is subject to foreign investment restriction in accordance with the 2020 Negative List. The entities that we control certain percentage of their shareholding through the contractual arrangements (the "VIE Entities") are Raily Tiange, Hangzhou Raily and Ruian Raily, which were established under the laws of the PRC. We do not directly own 100% equity interest in the VIE Entities. Raily Tiange is currently held as to 70% by Raily Beauty Consultation and 30% by Mr. Fu while each of Hangzhou Raily and Ruian Raily is owned as to 70% by Raily Beauty Consultation and 30% by Ningbo Ruixuan.

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

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

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

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

Contractual Arrangements overview

1. Details of the VIE Entities and Registered Shareholders

VIE Entities:	Hangzhou Raily, Raily Tiange and Ruian Raily
Registered Shareholders:	the shareholders of Raily Tiange, Hangzhou Raily and Ruian Raily including Mr. Fu and Ningbo Ruixuan

2. Description of the VIE Entities' business

Our VIE Entities are aesthetic medical services provider in the PRC, according to 2020 Negative List, medical institutions are restricted to the form of sino-foreign equity joint venture.

3. Summary of terms of contractual arrangements

The Contractual Arrangements which were in place during 2020 are as follows:

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

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

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

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

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

For 2020, the VIE Entities paid the service fee of approximately RMB6.8 million to Raily Beauty Consultation under the Business Cooperation Agreements.

The revenue and net profit of the VIE Entities subject to the Contractual Arrangements amounted to approximately RMB131.5 million and RMB16.3 million for 2020, respectively. The total assets and total liabilities of the VIE Entities subject to the Contractual Arrangements amounted to approximately RMB118.52 million and RMB66.7 million as at 31 December 2020, respectively.

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

Risks associated with the Contractual Arrangements

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

Material change in relation to the Contractual Arrangements

During 2020, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

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

However, for 2020, none of the Contractual Arrangements had been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements had been removed.

Waiver from the Stock Exchange

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

Confirmation from independent non-executive Directors

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that during 2020 that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by the VIE Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and the VIE Entities during the relevant financial period are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.

Confirmations from the Company's Independent Auditor

Ernst and Young, the Company's auditor, has carried out procedures annually to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, Ernst and Young has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in 2020:

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

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

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

PUBLIC FLOAT

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

AUDIT COMMITTEE

Before the Group's annual results for the year ended 31 December 2020 were approved by the Board, the Audit Committee had reviewed and approved the relevant annual results. The work of the Audit Committee and its composition information are set out in the corporate governance report on pages 30 to 31 of this report.

CORPORATE GOVERNANCE

The corporate governance practices of the Company are set out in the corporate governance report on page 26 of this report.

AUDITORS

Ernst & Young, Certified Public Accountants, has audited the financial statements for 2020 and will retire at the annual general meeting and is eligible for re-election. The Company will propose a resolution for the re-appointment of Ernst & Young as the Company's auditors at the forthcoming annual general meeting.

By order of the Board
Raily Aesthetic Medicine International Holdings Limited
Fu Haishu
Chairman and executive Director

Hong Kong, 26 March 2021

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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To the shareholders of Raily Aesthetic Medicine International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Raily Aesthetic Medicine International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 79 to 153, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
As at 31 December 2020, the carrying value of goodwill in the consolidated financial statements amounted to RMB20,210,000 as at 31 December 2020. In accordance with IAS 36 *Impairment of Assets*, the Group is required to perform impairment assessment for goodwill at least on an annual basis. In performing the impairment assessment, the goodwill has been allocated to the corresponding subsidiaries acquired as the acquired subsidiaries are the only cash-generating unit that can benefit from synergy of the acquisition. The impairment assessment is based on the recoverable amount of the acquired subsidiaries to which the goodwill is allocated. The recoverable amount of the subsidiaries is their value in use using cash flow projections based on a financial budget covering a 5-year period. This matter was significant to our audit because the impairment assessment process included reviewing profit forecast, growth rate and discounted rate which was complex and involved significant judgements and estimates. The disclosures about impairment of goodwill are included in note 2.4 "Summary of Significant Accounting Policies", note 3 "Significant Accounting Judgement and Estimates" and note 16 "Goodwill", which specifically explain the key assumptions management used for the calculation of the recoverable amount.	Our audit procedures included, among others, considering the appropriateness of the allocation of the goodwill to the cash-generating units ("CGUs"). With the assistance of our internal valuation specialists, we evaluated the assumptions and methodologies used by the Group, in particular, the discount rate and the growth rate beyond a 5-year period. We paid attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance and the business development plan of the acquired subsidiaries to which the goodwill is allocated. We also focused on the adequacy of the disclosures in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yours faithfully,

Ernst & Young
Certified Public Accountants

Hong Kong
26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	**164,545**	191,156
Cost of sales		**(84,374)**	(90,118)
Gross profit		**80,171**	101,038
Other income and gains	5	**5,093**	1,626
Selling and distribution expenses		**(33,133)**	(50,172)
Administrative expenses		**(36,971)**	(33,405)
Other expenses		**(1,151)**	(363)
Finance costs	7	**(2,442)**	(2,336)
PROFIT BEFORE TAX	6	**11,567**	16,388
Income tax expense	10	**(6,656)**	(6,111)
PROFIT FOR THE YEAR		**4,911**	10,277
Attributable to:			
Owners of the parent		**4,251**	9,897
Non-controlling interests		**660**	380
		4,911	10,277
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted the year			
— For profit for the year (RMB)	12	**0.25 cents**	0.61 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR	**4,911**	10,277
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income:		
Changes in fair value	**(71)**	—
Income tax effect	**18**	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**(53)**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(53)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,858**	10,277
Attributable to:		
Owners of the parent	**4,198**	9,897
Non-controlling interests	**660**	380
	4,858	10,277

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**24,487**	24,119
Right-of-use assets	*14(a)*	**19,709**	25,121
Intangible assets	*15*	**5,041**	401
Goodwill	*16*	**20,210**	20,639
Equity investment designated at fair value through other comprehensive income	*17*	**5,929**	6,000
Deferred tax assets	*18*	**5,348**	8,669
Other non-current assets		**—**	4,877
Total non-current assets		**80,724**	89,826
CURRENT ASSETS			
Supplies	*19*	**11,621**	7,894
Trade receivables	*20*	**5,128**	8,321
Prepayments, other receivables and other current assets	*21*	**15,961**	15,762
Due from related companies	*35(b)*	**—**	865
Debt investments at amortised cost	*23*	**—**	11,055
Cash and bank balances	*24*	**158,898**	49,410
Total current assets		**191,608**	93,307
CURRENT LIABILITIES			
Due to the controlling shareholder	*35(b)*	**—**	1,672
Due to related companies	*35(b)*	**—**	245
Trade payables	*25*	**12,155**	8,475
Other payables and accruals	*26*	**17,431**	19,868
Contract liabilities	*27*	**8,014**	5,221
Interest-bearing bank borrowings	*28*	**13,000**	6,948
Refund liabilities	*29*	**5,352**	6,092
Lease liabilities	*14(b)*	**5,076**	6,619
Tax payable		**10,445**	14,928
Total current liabilities		**71,473**	70,068
NET CURRENT ASSETS		**120,135**	23,239
TOTAL ASSETS LESS CURRENT LIABILITIES		**200,859**	113,065

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	*14(b)*	**14,109**	19,765
Deferred tax liabilities	*18*	**—**	25
Total non-current liabilities		**14,109**	19,790
Net assets		**186,750**	93,275
EQUITY			
Equity attributable to owners of the parent			
Share capital	*30*	**134,060**	4
Reserves	*31*	**51,813**	93,054
		185,873	93,058
Non-controlling interests		**877**	217
Total equity		**186,750**	93,275

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

		Attributable to owners of the parent							
	Notes	Share capital RMB'000 (note 30)	Capital reserves RMB'000 (note 31)	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Statutory surplus reserve RMB'000 (note 31)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019		325	(12,946)	—	4,022	23,640	15,041	(51)	14,990
Profit and total comprehensive income for the year		—	—	—	—	9,897	9,897	380	10,277
Transfer to statutory surplus reserve		—	—	—	4,212	(4,212)	—	—	—
Repurchase and cancellation of shares	*30(ii)*	(322)	—	—	—	—	(322)	—	(322)
Issue of shares	*30(iii)*	1	79,747	—	—	—	79,748	—	79,748
Capital injection from the controlling shareholder	*(i)*	—	857	—	—	—	857	—	857
Dividends declared to the then shareholders		—	—	—	—	(11,961)	(11,961)	—	(11,961)
Deemed disposal of equity to the non-controlling interests	*(ii)*	—	(202)	—	—	—	(202)	202	—
Deemed distribution to the controlling shareholder	*(iii)*	—	—	—	—	—	—	(314)	(314)
At 31 December 2019		4	67,456*	—*	8,234*	17,364*	93,058	217	93,275
At 1 January 2020		**4**	**67,456***	—	**8,234***	**17,364***	**93,058**	**217**	**93,275**
Profit and total comprehensive income for the year		—	—	—	—	**4,251**	**4,251**	**660**	**4,911**
Transfer to statutory surplus reserve		—	—	—	**1,412**	**(1,412)**	—	—	—
Issue of shares from initial public offering	*30(iv)*	**22,343**	**93,527**	—	—	—	**115,870**	—	**115,870**
Share issue expenses		—	**(27,253)**	—	—	—	**(27,253)**	—	**(27,253)**
Capitalisation Issue	*30(v)*	**111,713**	**(111,713)**	—	—	—	—	—	—
Change in fair value of equity investment at fair value through other comprehensive income, net of tax		—	—	**(53)**	—	—	**(53)**	—	**(53)**
At 31 December 2020		**134,060**	**22,017***	**(53)***	**9,646***	**20,203***	**185,873**	**877**	**186,750**

* *These reserve accounts comprise the consolidated reserves of RMB51,813,000 (2019: RMB93,054,000) in the consolidated statement of financial position.*

(i) *On 21 June 2019, Ningbo Ruixuan Investment Management Partnership (LL.P.) ("Ningbo Ruixuan") injected capital in Ruian Raily (a subsidiary of the Company) (note 1) of RMB857,000.*

(ii) *The 8% equity interest in Wuhu Raily held by Ningbo Ruixuan was attributable to the non-controlling interests since 1 January 2019.*

(iii) *On 26 September 2019, Ningbo Ruixuan and Mr. Wang Yuming reduced the capital of Wuhu Raily (a subsidiary of the Company) (note 1) by RMB245,000 and RMB69,000, respectively. Accordingly, non-controlling interests decreased by RMB314,000.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**11,567**	16,388
Adjustments for:			
Loss/(gain) on disposal of items of property, plant and equipment and right-of-use assets		**19**	(131)
Investment income	*5*	**(508)**	(595)
Finance expenses	*7*	**2,442**	2,336
Depreciation of right-of-use assets	*6, 14*	**5,812**	5,902
Depreciation of property, plant and equipment	*6, 13*	**7,401**	5,784
Provision for impairment of trade receivables and other receivables		**130**	64
Impairment of property, plant and equipment	*13*	**53**	—
Impairment of goodwill	*16*	**429**	—
Amortisation of intangible assets	*6, 15*	**115**	67
Lease payments waived	*14*	**(3,601)**	—
Gain on foreign exchange differences		**(495)**	(4)
		23,364	29,811
Increase in supplies		**(3,727)**	(1,807)
Decrease/(increase) in trade receivables		**3,232**	(3,209)
Increase in prepayments, other receivables and other assets		**(5,040)**	(5,107)
Increase in trade payables		**3,680**	2,012
Increase in contract liabilities		**2,793**	3,220
(Decrease)/increase in refund liabilities		**(740)**	1,065
(Decrease)/increase in other payables and accruals		**(1,579)**	1,074
Cash generated from operations		**21,983**	27,059
Income tax paid		**(7,825)**	(10,078)
Net cash flows from operating activities		**14,158**	16,981

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in amounts due from the controlling shareholder	35	**(1,672)**	(6,342)
Decrease in amounts due from related companies	35	**865**	(1,206)
Purchases of items of property, plant and equipment		**(8,342)**	(10,832)
Purchases of items of intangible assets		**(255)**	(2,528)
Purchase of financial investments		**(15,100)**	(49,500)
Purchase of pledged deposits		**(10,500)**	—
Purchase of time deposits		**(5,000)**	—
Proceeds from disposal of financial investments		**26,663**	39,040
Purchase of equity investment		**—**	(6,000)
Proceeds from disposal of items of property, plant and equipment		**5**	236
Net cash flows used in investing activities		**(13,336)**	(37,132)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of contribution from the controlling shareholder		**—**	1,157
Payment of capital reduction	35	**(245)**	—
Loans from banks		**16,057**	6,948
Repayment of bank loans		**(10,005)**	—
Interest paid		**(470)**	(34)
Repayment of a loan from an independent third party		**—**	(13,600)
Dividends paid		**—**	(18,781)
Net proceeds from issue of shares		**93,289**	80,092
Payment of lease liabilities	14(b)	**(5,955)**	(6,580)
Net cash flows from financing activities		**92,671**	49,202
NET INCREASE IN CASH AND CASH EQUIVALENTS		**93,493**	29,051
Net foreign exchange difference		**495**	4
Cash and cash equivalents at beginning of the year		**49,410**	20,355
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	24	**143,398**	49,410

1 CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the provision of aesthetic medical services and consulting services.

The Company was listed on the Hong Kong Stock Exchange on 28 December 2020.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place and date of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Raily Medical Management Limited ("Raily BVI") 瑞麗醫療管理有限公司	British Virgin Islands 16 January 2018	USD50,000	100%	—	Investment holding
Raily Medical Limited ("Raily HK") 瑞麗醫療有限公司	Hong Kong 2 February 2018	HKD10,000	—	100%	Consulting service
Hangzhou Raily Beauty Cosmetology Consulting Service Co., Ltd. ("Raily Beauty Consultation")* 杭州瑞麗美容諮詢服務有限公司	PRC/Mainland China 10 March 2005	RMB20,000,000	—	100%	Investment holding
Hangzhou Raily Aesthetic Medical Hospital Co., Ltd. ("Hangzhou Raily")* 杭州瑞麗醫療美容醫院有限公司	PRC/Mainland China 9 August 2013	RMB20,000,000	—	100%**	Aesthetic medical service
Hangzhou Raily Tiange Plastic Surgery Out-patient Department Co., Ltd. ("Raily Tiange")* 杭州瑞麗天鴿整形外科門診部有限公司	PRC/Mainland China 28 September 2007	RMB3,333,300	—	100%**	Aesthetic medical service
Ruian Raily Aesthetic Medical Hospital Co., Ltd. ("Ruian Raily")* 瑞安瑞麗醫療美容醫院有限公司	PRC/Mainland China 18 March 2013	RMB20,000,000	—	100%**	Aesthetic medical service
Wuhu Raily Aesthetic Medical Out-patient Department Co., Ltd ("Wuhu Raily")* 蕪湖瑞麗醫療美容門診部有限公司	PRC/Mainland China 3 July 2015	RMB685,800	—	70%***	Aesthetic medical service

1 CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name of company	Place and date of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhou Yingjieshi Management Consulting Co., Ltd. ("Guangzhou Yingjieshi")* 廣州英傑仕管理諮詢有限公司	PRC/Mainland China 10 June 2015	RMB2,000,000	—	100%	Consulting service
Ningbo Zhuerli Beauty Consulting Service Co., Ltd. ("Ningbo Zhuerli")* 寧波珠兒麗美容諮詢服務有限公司	PRC/Mainland China 13 April 2017	RMB1,000,000	—	100%	Consulting service
Wuhu Raily Medical Equipment Trade Co., Ltd. ("Raily Equipment")* 蕪湖瑞麗醫療器械貿易有限公司	PRC/Mainland China 17 September 2015	RMB1,000,000	—	100%	Medical equipment trading
Shenzhen Ruiquan Management Consulting Co., Ltd. ("Shenzhen Ruiquan") 深圳瑞泉管理諮詢有限公司	PRC/Mainland China 29 August 2019	RMB10,000,000	—	100%	Consulting service

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

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

*** *Since 1 January 2019, the 30% equity interest of this entity is attributable to the non-controlling interests.*

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments, wealth management products and equity investments which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*COVID-19-Related Rent Concessions* (early adopted)
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 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 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB3,601,000 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 31 December 2020.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRS Standards 2018–2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

[1] Effective for annual periods beginning on or after 1 January 2021

[2] Effective for annual periods beginning on or after 1 January 2022

[3] Effective for annual periods beginning on or after 1 January 2023

[4] No mandatory effective date yet determined but available for adoption

[5] As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Annual Improvements to IFRS standards 2018–2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *IFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- *IFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its equity investments and non-principal-protected investments at fair value at the end of the year. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

Machinery equipment	20% to 33.3%
Office and other equipment	20% to 33.3%
Leasehold improvements	20% to 33.3%
Motor vehicles	20% to 25%

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

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

Construction in progress represents a building renovation project under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

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

Software and others	5 to 10 years

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

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Working spaces	2 to 10 years

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee **(continued)**

(b) Lease liabilities

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

***Initial recognition and measurement* (continued)**

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

— the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

***General approach* (continued)**

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, lease liabilities, other payables and accruals, amounts due to the controlling shareholder and related companies.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Supplies

Supplies, consisting primarily of inventories of pharmaceutical and medical supplies, are stated at the lower of cost and net realisable value, which approximates the market value, and are expensed as used.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

— when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Rendering of aesthetic medical services

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

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

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

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

(b) Rendering of consulting services

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Other income

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

Contract liabilities

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

Refund liabilities

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

Employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 19% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Dividends

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Lease commitments — Group as lessee

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

Estimation uncertainty

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

3 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Variable consideration for refund to customers

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

The Group has developed a statistical model for estimating the refund which is based on the Group's past experience with various groups of customers. Any significant changes in experience as compared to historical patterns will impact the expected refund estimated by the Group. The Group updates its assessment of the expected refund on a regular basis and the refund liabilities are adjusted accordingly. As at 31 December 2020, the amount recognised as refund liabilities for the expected refund was RMB5,352,000 (2019: RMB6,092,000).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB20,210,000 (2019: RMB20,639,000). Further details are given in note 16.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 18.

4 OPERATING SEGMENT INFORMATION

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

(a) Aesthetic medical services comprise principally inpatient services including surgical services and outpatient services including injection service, dermatology service and others;

(b) Consulting services comprise principally management consulting services and aesthetic training courses.

4 OPERATING SEGMENT INFORMATION (CONTINUED)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment operating profit which is calculated based on gross profit less selling and marketing expenses and general and administrative expenses allocated excluding listing expenses. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision-maker for review.

Year ended 31 December 2020	Aesthetic medical services RMB'000	Consulting services RMB'000	Total RMB'000
Segment revenue *(note 5)*:			
External customers	161,906	2,639	164,545
Segment results	32,144	(382)	31,762
Reconciliation:			
Other income and gains			5,093
Group and unallocated expenses			(24,803)
Finance costs (other than interest on lease liabilities)			(485)
Profit before income tax			11,567
Other segment information:			
Impairment losses recognised in the statement of profit or loss, net	(143)	755	612
Depreciation and amortisation	12,473	855	13,328
Capital expenditure*	8,431	166	8,597

4 OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019	Aesthetic medical services RMB'000	Consulting services RMB'000	Total RMB'000
Segment revenue *(note 5)*:			
External customers	183,609	7,547	191,156
Segment results	31,506	1,749	33,255
Reconciliation:			
Other income and gains			1,626
Group and unallocated expenses			(18,459)
Finance costs (other than interest on lease liabilities)			(34)
Profit before income tax			16,388
Other segment information:			
Impairment losses recognised in the statement of profit or loss, net	57	7	64
Depreciation and amortisation	10,638	1,115	11,753
Capital expenditure*	10,884	2,476	13,360

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

Geographical information

(a) Revenue from external customers

All significant external customers of the Group are located in Mainland China. Accordingly, no geographical information of external customers is presented.

(b) Non-current assets

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of segment assets is presented.

Information about a major customer

No revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer for the years ended 31 December 2020 and 2019.

5 REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers		
Aesthetic medical services	**161,906**	183,609
Consulting services	**2,639**	7,547
	164,545	191,156

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2020

Segments	Aesthetic medical services RMB'000	Consulting services RMB'000	Total RMB'000
Services	161,906	2,639	164,545
Geographical market			
Mainland China	161,906	2,639	164,545
Timing of revenue recognition			
Services transferred at a point in time	124,728	—	124,728
Services transferred over time	37,178	2,639	39,817
	161,906	2,639	164,545
Revenue from contracts with customers			
External customers	161,906	2,639	164,545

5 REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information **(continued)**

For the year ended 31 December 2019

Segments	Aesthetic medical services RMB'000	Consulting services RMB'000	Total RMB'000
Services	183,609	7,547	191,156
Geographical market			
Mainland China	183,609	7,547	191,156
Timing of revenue recognition			
Services transferred at a point in time	166,766	95	166,861
Services transferred over time	16,843	7,452	24,295
	183,609	7,547	191,156
Revenue from contracts with customers			
External customers	183,609	7,547	191,156

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the reporting period	**5,221**	2,661

	2020 RMB'000	2019 RMB'000
Revenue recognised from performance obligations satisfied in previous periods:		
Sale of services not previously recognised due to constraints on variable consideration	**4,394**	3,712

5 REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Rendering of outpatient aesthetic medial services

The performance obligation is satisfied upon the services are rendered and payment in advance is normally required.

Rendering of inpatient aesthetic medial services

The performance obligation is satisfied over time and payment in advance is normally required.

Rendering of consulting services

The performance obligation of consulting contracts with fixed terms is satisfied over time when the services are rendered and payment is generally received in advance or due periodically with a credit term of 30 to 90 days. The performance obligation of other consulting contracts is satisfied when the services are rendered.

The amount of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December is as follows:

	2020 **RMB'000**	2019 RMB'000
Within one year	**8,014**	5,221

The amount of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue mainly related to medical aesthetic service packages, of which the performance obligations that are to be satisfied during the service period. The amounts disclosed above do not include variable consideration which is constrained.

5 REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

An analysis of other income and gains is as follows:

	2020 RMB'000	2019 RMB'000
Other income		
Government subsidies	3,245	—
Investment income on financial investments	508	595
Interest income	174	110
Lease payments waived	874	—
Others	292	76
	5,093	781
Gains		
Gain on disposal of items of property, plant and equipment and right-of-use assets	—	131
Exchange gains	—	714
	—	845
	5,093	1,626

6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2020 RMB'000	2019 RMB'000
Cost of supplies consumed		**48,309**	47,327
Amortisation of intangible assets	*15*	**115**	67
Depreciation of property, plant and equipment	*13*	**7,401**	5,784
Depreciation of right-of-use assets	*14*	**5,812**	5,902
Impairment of goodwill	*16*	**429**	—
Lease payments not included in the measurement of lease liabilities		**40**	66
Listing expenses (including reporting accountants' remuneration)		**16,999**	15,316
Auditor's remuneration		**1,180**	—
Employee benefit expense (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**45,277**	56,136
Pension scheme contributions		**4,066**	6,434
Staff welfare expenses		**3,080**	2,604
Reversal of impairment of trade receivables	*20*	**(39)**	(15)
Impairment of financial assets included in prepayments, other receivables and other assets	*21*	**169**	79
Impairment of property, plant and equipment	*13*	**53**	—
Loss/(gain) on disposal of items of property, plant and equipment		**19**	(4)
Gain on derecognition of right-of-use assets		**—**	(127)
Promotion and marketing expenses		**16,169**	23,257

7 FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	**1,957**	2,302
Interest on bank borrowings	**485**	34
	2,442	2,336

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 RMB'000
Fees	**3**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**2,225**	2,618
Pension scheme contributions	**71**	70
	2,299	2,688

(a) Independent non-executive directors

The fees paid to or receivable by independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 RMB'000
Mr. Cao Dequan	**1**	—
Mr. Liu Teng	**1**	—
Ms. Yang Xiaofen	**1**	—
	3	—

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors

	Fees RMB'000	Salaries, allowances, benefits in kind and welfare RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2020:				
Executive directors:				
Mr. Song Jianliang	—	**1,439**	—	**1,439**
Mr. Yu Kai	—	**564**	**51**	**615**
Mr. Fu Haishu	—	**222**	**20**	**242**
	—	**2,225**	**71**	**2,296**
Non-executive director:				
Mr. Xie Lijun	—	—	—	—
Ms. Fan Qirui	—	—	—	—
	—	**2,225**	**71**	**2,296**
2019:				
Executive directors:				
Mr. Song Jianliang	—	1,837	—	1,837
Mr. Yu Kai	—	601	47	648
Mr. Fu Haishu	—	180	23	203
	—	2,618	70	2,688

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. No remuneration was paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group distinguishing between contractual and other payments.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2019: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020	2019
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,846**	3,569
Pension scheme contributions	**51**	—
	2,897	3,569

No remuneration was paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of any office in connection with the management of the affairs of any member of the group distinguishing between contractual payments and other payments (excluding the amounts as disclosed in the table above). The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to HKD1,000,000	**2**	2
HKD1,000,001 to HKD2,000,000	**2**	2
	4	4

10 INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

	2020	2019
	RMB'000	RMB'000
Current tax	**3,342**	10,588
Deferred tax *(note 18)*	**3,314**	(4,477)
Total tax charge for the year	**6,656**	6,111

10 INCOME TAX (CONTINUED)

The majority of the Company's subsidiaries are domiciled in Mainland China. A reconciliation of the tax expenses applicable to profit before tax at the statutory rate for Mainland China to the tax expenses at the Group's effective tax rate is as follows:

	2020 RMB'000	2019 RMB'000
Profit before tax	**11,567**	16,388
Tax at the PRC statutory income tax rate*	**2,892**	4,097
Effect of different tax rates of subsidiaries**	**(112)**	15
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**—**	464
Expenses not deductible for tax	**77**	103
Deductible temporary differences and tax losses not recognised	**3,799**	1,432
	6,656	6,111

* *The provision for current income tax in Mainland China is based on the statutory rate of 25% of the assessable profit of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.*

** *Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI. The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the rate of 16.5% on any estimated assessable profits arising in Hong Kong. Pursuant to Caishui 2017 Circular No.43, 2019 circular No.13 and No. 2 announcement of the State Taxation Administration 2019, Ningbo Zhuerli and Wuhu Raily, as small micro-enterprises, enjoy preferential tax rates of 5% (2019:10%) for the year ended 31 December 2020.*

11 DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividend	**—**	11,961

The dividend for the first quarter of 2019 was approved by the then shareholders of the subsidiaries pursuant to a shareholder resolution passed in April 2019.

No dividend was paid or declared by the Company for the year ended 31 December 2020.

12 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,716,243,163 (2019: 1,624,668,794) in issue during the year, and assuming the capitalisation issue had been completed on 1 January 2019, as further detailed in note 30 to the financial statements.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2019 included 59,334 ordinary shares and 1,712,440,666 shares in connection with the capitalisation issue, which were deemed to be issued as of the beginning of the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2020 included the weighted average of 342,500,000 ordinary shares issued in connection with the Company's initial public offering and the aforesaid 1,712,500,000 ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2020 **RMB'000**	2019 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**4,251**	9,897
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,716,243,169**	1,624,668,794
Basic and diluted earnings per share (RMB)	**0.25 cents**	0.61 cents

13 PROPERTY, PLANT AND EQUIPMENT

	Machinery equipment RMB'000	Office and other equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2020:					
Cost	26,204	6,744	12,128	2,908	47,984
Accumulated depreciation	(10,694)	(5,387)	(6,090)	(1,694)	(23,865)
Net carrying amount	15,510	1,357	6,038	1,214	24,119
At 1 January 2020, net of accumulated depreciation	15,510	1,357	6,038	1,214	24,119
Additions	6,339	238	355	914	7,846
Disposals	(17)	(7)	—	—	(24)
Depreciation provided during the year	(4,318)	(550)	(2,190)	(343)	(7,401)
Impairment	—	(6)	—	(47)	(53)
At 31 December 2020, net of accumulated depreciation and impairment	17,514	1,032	4,203	1,738	24,487
At 31 December 2020:					
Cost	32,124	6,927	12,484	3,822	55,357
Accumulated depreciation	(14,610)	(5,889)	(8,281)	(2,037)	(30,817)
Impairment	—	(6)	—	(47)	(53)
Net carrying amount	17,514	1,032	4,203	1,738	24,487

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Machinery equipment RMB'000	Office and other equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019:						
Cost	20,093	6,475	8,003	2,678	672	37,921
Accumulated depreciation	(7,859)	(4,870)	(4,191)	(1,938)	—	(18,858)
Net carrying amount	12,234	1,605	3,812	740	672	19,063
At 1 January 2019, net of accumulated depreciation	12,234	1,605	3,812	740	672	19,063
Additions	6,651	335	3,453	633	—	11,072
Disposals	(205)	(7)	—	(20)	—	(232)
Transfers	—	—	672	—	(672)	—
Depreciation provided during the year	(3,170)	(576)	(1,899)	(139)	—	(5,784)
At 31 December 2019, net of accumulated depreciation	15,510	1,357	6,038	1,214	—	24,119
At 31 December 2019:						
Cost	26,204	6,744	12,128	2,908	—	47,984
Accumulated depreciation	(10,694)	(5,387)	(6,090)	(1,694)	—	(23,865)
Net carrying amount	15,510	1,357	6,038	1,214	—	24,119

In the opinion of the Group's directors, an impairment of property, plant and equipment amounting to RMB53,000 was recognised in the year ended 31 December 2020 due to the shrinking consulting business of Guangzhou Yingjieshi.

14 LEASES

Group as a lessee

The Group has lease contracts for working spaces used in its operations. Leases of working spaces generally have lease terms between 2 and 10 years. The Group's obligations under its leases are secured by the lessors' title to the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Working spaces RMB'000
As at 1 January 2019	27,401
Additions	4,542
Depreciation charge	(5,902)
Derecognition	(920)
As at 31 December 2019 and 1 January 2020	**25,121**
Additions	**400**
Depreciation charge	**(5,812)**
As at 31 December 2020	**19,709**

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	**26,384**	27,167
New leases	**400**	4,542
Accretion of interest during the year	**1,957**	2,302
Payments	**(5,955)**	(6,580)
Payments waived	**(3,601)**	—
Derecognition	**—**	(1,047)
Carrying amount at 31 December	**19,185**	26,384
Analysed into:		
Current	**5,076**	6,619
Non-current	**14,109**	19,765

14 LEASES (CONTINUED)

Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest charge on lease liabilities	**1,957**	2,302
Depreciation charge of right-of-use assets	**5,812**	5,902
Expense relating to short-term leases	**40**	66
Lease payments waived	**(3,601)**	—
Gain on the derecognition of right-of-use assets	**—**	(127)
Total amount recognised in profit or loss	**4,208**	8,143

(d) Extension and termination options

The Group has several lease contracts that include extension and termination options but the Group did not expect to exercise such options as at 31 December 2020.

15 INTANGIBLE ASSETS

	Software RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2019, net of accumulated amortisation	323	17	340
Additions	65	63	128
Amortisation provided during the year	(59)	(8)	(67)
At 31 December 2019	329	72	401
At 31 December 2019 and at 1 January 2020:			
Cost	505	87	592
Accumulated amortisation	(176)	(15)	(191)
Net carrying amount	329	72	401
Cost at 1 January 2020, net of accumulated amortisation	**329**	**72**	**401**
Additions	**4,699**	**56**	**4,755**
Amortisation provided during the year	**(99)**	**(16)**	**(115)**
At 31 December 2020	**4,929**	**112**	**5,041**
At 31 December 2020:			
Cost	**5,204**	**143**	**5,347**
Accumulated amortisation	**(275)**	**(31)**	**(306)**
Net carrying amount	**4,929**	**112**	**5,041**

16 GOODWILL

	RMB'000
At 1 January 2019:	
Cost	20,639
Accumulated impairment	—
Net carrying amount	20,639
Cost at 1 January 2019, net of accumulated impairment	20,639
Impairment during the year	—
At 31 December 2019	20,639
At 31 December 2019:	
Cost	20,639
Accumulated impairment	—
Net carrying amount	20,639
Cost at 1 January 2020, net of accumulated impairment	**20,639**
Impairment during the year	**(429)**
Cost and net carrying amount at 31 December 2020	**20,210**
At 31 December 2020:	
Cost	**20,639**
Accumulated impairment	**(429)**
Net carrying amount	**20,210**

16 GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Aesthetic medical services CGU; and
- Consulting services CGU.

Aesthetic medical services CGU

The recoverable amount of the aesthetic medical services CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rates applied to the cash flow projections for 31 December 2020 is 14.97% (2019: 15.35%). The growth rate used to extrapolate the cash flows of the aesthetic medical services CGU beyond the five-year period is 3.00%, which is also an estimate of the long-term rate of inflation.

Consulting services CGU

The recoverable amount of the consulting services CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14.97% for the year ended 31 December 2019. The growth rate used to extrapolate the cash flows of the consulting services CGU beyond the five-year period is 3.00%, which is also an estimate of the long-term rate of inflation. In the opinion of the Group's directors, the goodwill of the consulting services CGU was fully impaired as at 30 June 2020. The impairment of goodwill and property, plant and equipment caused by consulting services of RMB429,000 and RMB53,000 was recognised in the year ended 31 December 2020 due to the shrinking consulting business of Guangzhou Yingjieshi.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	2020 RMB'000	2019 RMB'000
Aesthetic medical services	**20,210**	20,210
Consulting services	**—**	429
	20,210	20,639

16 GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Consulting services CGU **(continued)**

Assumptions were used in the value in use calculation of the aesthetic medical services and consulting services CGUs for 31 December 2020 and 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rates	—	The discount rates used are before tax and reflect specific risks relating to the relevant units.
Long-term growth rate	—	The basis used to determine the value assigned to the long-term growth rate is the forecast price indices during the budget year from where the main services are located.

The values assigned to the key assumptions on market development of the aesthetic medical and consulting service industry, discount rates and consumer price index are based on the long-term growth rates in the industry and the Group's historical experience.

Sensitivity to changes in key assumptions

As at 31 December 2020, the recoverable amount of the aesthetic medical services cash-generating unit exceeds its carrying amount by RMB91,994,000. Given that the goodwill of the consulting services CGU was fully impaired as at 30 June 2020, no further sensitivity test need to be applied to the consulting services cash-generating unit at 31 December 2020.

The following table sets forth the impact of reasonable possible changes in each of the key assumptions, with all other variables held constant, of goodwill impairment testing of the Group as of the dates indicated.

As at 31 December 2020, the recoverable amount of the cash-generating unit exceeds its carrying amount by:

Possible changes of key assumptions

	2020 **RMB'000**
Aesthetic medical services cash-generating unit	
Pre-tax discount rate increases by 1%	**81,154**
Long-term growth rate decreases by 1%	**84,954**

For the aesthetic medical services CGU, if the discount increased to 37.42% as at 31 December 2020 (2019: 61.00%), with other assumptions remained unchanged, the recoverable amount of the CGU would be decreased to the carrying amount of goodwill and other related long-term assets. Except for this, any reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment as at 31 December 2020.

17 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Unlisted equity investment, at fair value		
Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd.	5,929	6,000

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

In December 2019, the Group purchased a 10% equity interest in Shenzhen Jiumei Xinhe Medical Equipment Co., Ltd. at a market value of RMB6,000,000. The fair value measurement is categorised within level 3 of the fair value hierarchy.

18 DEFERRED TAX

Deferred tax assets

	Note	Advertising expenses for offsetting against future profit RMB'000	Accrued payroll and others RMB'000	Loss available for offsetting against future profit RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Fair value adjustment on equity investment RMB'000	Leasing RMB'000	Bad debt RMB'000	Refund liabilities RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2019		1,924	902	536	13	—	380	64	1,257	5,076
Deferred tax credited/(charged) to profit or loss during the year	10	220	288	2,861	(3)	—	(43)	4	266	3,593
Gross deferred tax assets at 31 December 2019 and 1 January 2020		2,144	1,190	3,397	10	—	337	68	1,523	8,669
Deferred tax credited/(charged) to profit or loss during the year	10	(1,190)	(552)	119	(10)	18	(337)	(43)	(185)	(2,180)
Gross deferred tax assets at 31 December 2020		954	638	3,516	—	18	—	25	1,338	6,489

18 DEFERRED TAX (CONTINUED)
Deferred tax liabilities

	Note	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding taxes RMB'000	Fair value adjustment on other financial assets RMB'000	Leasing RMB'000	Depreciation RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2019		44	865	—	—	—	909
Deferred tax credited/(charged) to profit or loss during the year	*10*	(28)	(865)	9	—	—	(884)
Gross deferred tax liabilities at 31 December 2019 and 1 January 2020		16	—	9	—	—	25
Deferred tax credited/(charged) to profit or loss during the year	*10*	(16)	—	(9)	129	1,012	1,116
Gross deferred tax liabilities at 31 December 2020		—	—	—	129	1,012	1,141

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Pursuant to the agreement entered in June 2020 and April 2019, it was agreed that subsidiaries established in Mainland China will not distribute their earnings for the year ended 31 December 2020 and the period from 1 April 2019 to 31 December 2020. Hence no deferred tax has been recognised for withholding taxes that would be payable on the earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China.

18 DEFERRED TAX (CONTINUED)

Deferred tax liabilities (continued)

For presentation purposes, certain deferred tax liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Deferred tax offset in the consolidated statement of financial position	1,141	—
Net deferred tax assets recognised in the consolidated statement of financial position	5,348	8,669
Net deferred tax liabilities recognised in the consolidated statement of financial position	—	25

19 SUPPLIES

	2020 RMB'000	2019 RMB'000
Pharmaceuticals	1,401	647
Medical consumables	10,220	7,247
	11,621	7,894

In the opinion of the directors, no impairment provision was needed as at the end of each reporting period.

20 TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	5,205	8,437
Impairment	(77)	(116)
	5,128	8,321

20 TRADE RECEIVABLES (CONTINUED)

The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	4,430	7,536
4 to 6 months	339	724
7 to 12 months	308	61
1 to 2 years	51	—
	5,128	8,321

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	116	181
Impairment losses, net	(39)	(15)
Amount written off as uncollectible	—	(50)
At end of year	77	116

The Group applies the simplified approach to calculate expected credit losses prescribed by IFRS 9 *Financial Instruments*, which permits the use of the lifetime expected loss provision for all trade receivables without a significant financing component. The expected credit losses ("ECLs") are assessed collectively based on credit risk characteristics and the Group's historical credit loss experience, adjusted for factors of general economic conditions and the time value of money. The measurement of ECLs is the product of probability of default, loss given default, exposure at default, the forward-looking factor and the discount factor. The probability of default and loss given default are estimated based on historical data and industry benchmarks. The forward-looking factor is derived from an assessment of both current general economic conditions and forecasts of future conditions. The estimation of ECLs reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The expected loss rate was 1.48% for trade receivables in aggregate as at 31 December 2020 (2019: 1.40%). The expected loss rate is reviewed, and adjusted if appropriate, at the end of each year. The credit loss rate remained the same during the year as the business and customer base of the Group remained stable and there were no significant fluctuations on the historical credit loss incurred.

21 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments for supplies	**1,009**	1,736
Prepayments for services	**3,210**	9,275
Prepaid expense	**4,656**	937
Deposits	**6,496**	3,382
Other receivables	**914**	587
	16,285	15,917
Impairment allowance	**(324)**	(155)
	15,961	15,762

Deposits and other receivables mainly represent rental deposits, deposits with suppliers and petty cash to employees. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

An impairment analysis is performed at the end of each reporting period. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate.

As at 31 December 2020, the Group estimated the expected losses for other receivables to be RMB324,000 (2019: RMB155,000). The movements in the loss allowance for impairment of other receivables were as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**155**	76
Impairment losses *(note 6)*	**169**	79
At end of year	**324**	155

22 LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	At 31 December 2020 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2019 and 1 January 2020 RMB'000	Maximum amount outstanding during the prior year RMB'000	At 1 January 2019 RMB'000	Security held
Ruide Consultation Limited (controlled by Mr. Fu Haishu)	—	865	865	865	325	None

The loans are non-interest-bearing and repayable on demand.

23 DEBT INVESTMENTS AT AMORTISED COST

	2020 RMB'000	2019 RMB'000
Debt investments at amortised cost	—	11,055

As at 31 December 2019, the principal-protected debt investments at amortised cost have been pledged to secure a bank's facility granted by Bank of Jiangsu amounting to RMB10,000,000, of which RMB4,948,000 was drawn down. The debt investments had been redeemed in 2020.

24 CASH AND BANK BALANCES

	2020 RMB'000	2019 RMB'000
Cash and bank balances	**158,898**	49,410
Less: Pledged deposits for bank facilities	**(10,500)**	—
Term deposit with original maturity of more than 3 month	**(5,000)**	—
Cash and cash equivalents	**143,398**	49,410
Denominated in RMB	**66,342**	49,032
Denominated in HK Dollar ("HKD")	**109,885**	258
Denominated in US Dollar ("USD")	**11**	120
Denominated in RMB	**158,898**	49,410

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits will be due in June 2021, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

25 TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 90 days	**7,278**	5,022
91 to 180 days	**1,490**	877
181 to 365 days	**769**	730
Over 365 days	**2,618**	1,846
	12,155	8,475

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

26 OTHER PAYABLES AND ACCRUALS

	2020 **RMB'000**	2019 RMB'000
Other payables	**7,739**	4,789
Payroll payable	**6,878**	9,079
Accruals	**15**	60
Tax liabilities (other than income tax)	**246**	677
Advances received	**2,553**	5,263
	17,431	19,868

Other payables are non-interest-bearing and repayable on demand.

27 CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2020 **RMB'000**	31 December 2019 RMB'000	1 January 2019 RMB'000
Short-term advances received from customers			
Aesthetic medical services	**7,854**	5,197	1,977
Consulting services	**160**	24	684
Total contract liabilities	**8,014**	5,221	2,661

28 INTEREST-BEARING BANK BORROWINGS

	2020			2019		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	**LPR+40BP**	**2021**	**10,000**	5.00	2020	4,948
Bank loans — unsecured	**4.15**	**2021**	**3,000**	4.20	2020	2,000
			13,000			6,948

The Group's secured bank loans as at 31 December 2020 are secured by the pledge of certain of the Group's deposits amounting to RMB10,500,000.

The Group's secured bank loans as at 31 December 2019 are secured by the Group's debt investments at amortised cost, amounting to RMB11,055,000.

The Group's interest-bearing bank borrowings were repayable within one year at the end of the reporting period.

29 REFUND LIABILITIES

	Refund liabilities RMB'000
At 1 January 2019	5,027
Additions	12,843
Amounts utilised during the year	(11,778)
At 31 December 2019 and 1 January 2020	6,092
Additions	9,436
Amounts utilised during the year	(10,176)
At 31 December 2020	5,352

30 SHARE CAPITAL

	Number of shares	Nominal value USD	Nominal value RMB
Authorised:			
At 1 January 2019	50,000	50,000	325,000
Subdivision	4,950,000	—	—
At 31 December 2019 and 1 January 2020	5,000,000	50,000	325,000
Subdivision	2,995,000,000	29,950,000	195,383,000
At 31 December 2020	**3,000,000,000**	**30,000,000**	**195,708,000**
Issued:			
At 1 January 2019	50,000	50,000	325,000
Subdivision of shares	4,950,000	—	—
Repurchase and cancellation of shares	(4,956,500)	(49,565)	(322,173)
Allotment of shares	15,834	158	1,059
At 31 December 2019 and 1 January 2020	59,334	593	3,886
Capitalisation issue	1,712,440,666	17,124,407	111,712,779
Issue of shares from initial public offering	342,500,000	3,425,000	22,343,342
At 31 December 2020	**2,055,000,000**	**20,550,000**	**134,060,007**

i. The Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on 2 January 2018 with authorised share capital of USD50,000 divided into 50,000 shares at a par value of USD1.00 each. On the same date, 50,000 shares were issued to Ruide Consultation Limited.

ii. On 24 January 2019, 50,000 issued shares with a par value of USD1.00 each in the capital of the Company were subdivided into USD0.01 each, such that immediately following the share subdivision, the authorised share capital of the Company became USD50,000 divided into 5,000,000 shares with a par value of USD0.01 each. On the same date, 4,956,500 ordinary shares with a par value of USD0.01 each were repurchased by the Company from Ruide Consultation Limited at a purchase price of USD49,565. Upon the completion of such share repurchase, the repurchased shares were cancelled. Thereafter, Ruide Consultation Limited held 43,500 shares which represented the entire issued share capital of the Company.

30 SHARE CAPITAL (CONTINUED)

iii. On 24 January 2019, the Company allotted 3,500 ordinary shares with a par value of USD0.01 each to Beauty Milkway for a consideration of RMB1,400,000 and 3,000 ordinary shares with a par value of USD0.01 each to Youxin Management for a consideration of RMB1,200,000. The consideration amount exceeding the nominal amount of the shares issued was recorded in the share premium of the Company.

On 29 April 2019, Ruide BVI transferred 2,967, 1,125 and 974 shares in the Company to Success Concept, Mr. Cheng Lei Jack and Beauty Milkway for considerations of RMB8,575,000, RMB10,125,000 and RMB8,763,600, respectively.

On 30 April 2019, the Company allotted 3,889 ordinary shares with a par value of USD0.01 each to Huamei Medical Investment Fund Limited at a consideration of RMB35,000,000, 3,889 ordinary shares with a par value of USD0.01 each to Shanghai Donghua Health Management Partnership (Limited Partnership) (上海東嫿健康管理合夥企業(有限合夥)) at a consideration of RMB35,000,000, and 1,556 ordinary shares with a par value of USD0.01 each to Shanghai Paibo Management Consulting Partnership (Limited Partnership) (上海湃帛管理諮詢合夥企業(有限合夥)) at a consideration of RMB14,000,000. Pursuant to the agreement with Youxin Management, the Company paid RMB6,745,000 as commission at 8% for the financing. The net proceeds of RMB78,664,000 after deducting the commission exceeding the nominal amount of the shares issued were recorded in the share premium of the Company.

iv. On 28 December 2020, the Company was listed on the Main Board of the Stock Exchange and made a global offering of 342,500,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$0.40 per share for a total cash consideration before expense of approximately HK$137,690,000 (equivalent to RMB115,870,000).

v. Pursuant to a Shareholders Resolution on 4 December 2020, a total of 1,712,440,666 shares were allotted and issued, credited as fully-paid at par, by way of capitalisation from the capital reserve to the holders of shares whose names appear on the register of members of the Company as of the date of the passing of the resolution in proportion to their then respective existing shareholdings in the Company.

31 RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company and the reserve arising from the reorganisation during the initial public offering process and the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interest in a subsidiary. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, a subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB400,000 (2019: RMB4,542,000) and RMB400,000 (2019:RMB4,542,000), respectively, in respect of lease arrangements for working spaces.

(b) Changes in liabilities arising from financing activities

2020

	Notes	Bank borrowings RMB'000	Lease liabilities RMB'000	Due from related companies RMB'000	Due to the controlling shareholder RMB'000	Total RMB'000
At 1 January 2020		6,948	26,384	(620)	1,672	34,384
Changes from financing cash flows:						
Payments of lease liabilities	*14(b)*	—	(5,955)	—	—	(5,955)
Loans received from banks		16,057	—	—	—	16,057
Repayments of bank loans		(10,005)	—	—	—	(10,005)
Payment of capital reduction		—	—	(245)	—	(245)
Changes from investing cash flows:						
Cash paid to related parties		—	—	—	(1,672)	(1,672)
Cash received from related parties		—	—	865	—	865
Changes from non-cash activities:						
New leases	*14(a)*	—	400	—	—	400
Lease payments waived	*14(b)*	—	(3,601)	—	—	(3,601)
Interest expense	*7*	—	1,957	—	—	1,957
At 31 December 2020		13,000	19,185	—	—	32,185

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities (continued)

2019

	Notes	Bank borrowings RMB'000	Lease liabilities RMB'000	Due from related companies RMB'000	Due to the controlling shareholder RMB'000	Total RMB'000
At 1 January 2019		—	27,167	5,355	8,854	41,376
Changes from financing cash flows:						
Payment of lease liabilities	*14(b)*	—	(6,580)	—	—	(6,580)
Loans received from banks		6,948	—	—	—	6,948
Dividends paid		—	—	(17,941)	(840)	(18,781)
Capital received		—	—	325	—	325
Proceeds received from related parties		—	—	300	—	300
Change from investing cash flows:						
Cash paid to the controlling shareholder		—	—	(1,206)	(6,342)	(7,548)
Changes from non-cash activities:						
Dividends declared	*11*	—	—	11,961	—	11,961
New leases	*14(a)*	—	4,542	—	—	4,542
Interest expense	*7*	—	2,302	—	—	2,302
Derecognition	*14(b)*	—	(1,047)	—	—	(1,047)
Decrease in paid-in capital		—	—	245	—	245
Repurchase of shares		—	—	341	—	341
At 31 December 2019		6,948	26,384	(620)	1,672	34,384

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	**40**	66
Within financing activities	**5,955**	6,580
	5,995	6,646

33 PLEDGE OF ASSETS

Details of the Group's assets pledged for its interest-bearing bank borrowings are disclosed in note 28 to the financial statements.

34 COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 **RMB'000**	2019 RMB'000
Contracted, but not provided for:		
Software development	—	2,400

35 RELATED PARTY TRANSACTIONS

(a) The Group's principal related parties are as follows:

Name	**Relationship with the Company**
Mr. Fu Haishu	An executive director and the controlling shareholder
Ningbo Ruixuan Investment Management Partnership (LLP) ("Ningbo Ruixuan")	An entity controlled by the controlling shareholder
Ruide Consultation Limited	The parent company

The Group had no transactions with related parties during the year.

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties

	Notes	2020 RMB'000	2019 RMB'000
Due from a related company:			
Ruide Consultation Limited	*(i)*	—	865
Due to the controlling shareholder:			
Mr. Fu Haishu	*(ii)*	—	1,672
Due to a related company:			
Ningbo Ruixuan	*(iii)*	—	245

Notes:

(i) The outstanding balance as at 31 December 2019 was mainly the paid-in capital and disbursement due from the shareholder of the Company, which was unsecured, non-interest-bearing and repayable on demand. The balance was settled in 2020.

(ii) The outstanding balance as at 31 December 2019 mainly represented the transferred interest of RMB1,667,000 on the loans transferred from the Independent third party in 2018 to Mr. Fu Haishu and this amount is repayable on demand as at 31 December 2019. The balance was settled in 2020.

(iii) The outstanding balance as at 31 December 2019 was the reduction of paid-in capital of Wuhu Raily and was settled in March 2020.

(c) Compensation of key management personnel of the Group

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	**2,225**	2,618
Pension scheme contributions	**71**	70
Total compensation paid to key management personnel	**2,296**	2,688

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

36 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	—	5,929	5,929
Trade receivables	5,128	—	5,128
Financial assets included in prepayments, other receivables and other assets	7,086	—	7,086
Cash and bank balances	158,898	—	158,898
	171,112	5,929	177,041

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Lease liabilities	19,185
Trade payables	12,155
Interest-bearing bank borrowings	13,000
Financial liabilities included in other payables and accruals	10,307
	54,647

36 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2019

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	—	6,000	6,000
Trade receivables	8,321	—	8,321
Financial assets included in prepayments, other receivables and other assets	3,814	—	3,814
Debt investments at amortised cost	11,055	—	11,055
Due from related companies	865	—	865
Cash and bank balances	49,410	—	49,410
	73,465	6,000	79,465

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Lease liabilities	26,384
Trade payables	8,475
Due to the controlling shareholder	1,672
Due to related companies	245
Interest-bearing bank borrowings	6,948
Financial liabilities included in other payables and accruals	10,112
	53,836

37 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Financial asset				
Equity investment designated at fair value through other comprehensive income	**5,929**	6,000	**5,929**	6,000

Management has assessed that the fair values of cash and bank balances, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, interest-bearing bank borrowings, financial liabilities included in other payables and accruals, an amount due to the controlling shareholder, amounts due from/to related companies and the current portion of lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the unlisted equity investment designated at fair value through other comprehensive income is determined using a market approach. The fair value measurement is categorised within level 3 of the fair value hierarchy.

For the fair value of the unlisted equity investment at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

37 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 (2019: Nil):

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Valuation multiples	Discount for lack of marketability	29% to 31%	2% increase in multiple would result in decrease in fair value by RMB447,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	—	—	5,929	5,929

37 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	—	6,000	—	6,000

The movements in fair value measurements within Level 3 during the year are as follows:

	2020 RMB'000	2019 RMB'000
Equity investments at fair value through other comprehensive income:		
Transfer from Level 2 (At 1 January)	**6,000**	—
Total losses recognised in other comprehensive income	**(71)**	—
At 31 December	**5,929**	—

In 2020, there were no transfers of fair value measurements between Level 1 and Level 2 for the financial asset. Equity investment at fair value through other comprehensive income has transferred from Level 2 to Level 3.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. The interest rates and terms of repayment of borrowings are disclosed in note 28 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variable held constant, of the Group's profit before tax and the Group's equity.

31 December 2020	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
RMB	**5**	**(7)**	**(5)**

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from financing activities in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and HKD exchange rates, with all other variables held constant, of the Group's profit before tax.

	Change in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2020			
If RMB weakens against USD	**5**	**4**	**4**
If RMB strengthens against USD	**(5)**	**(4)**	**(4)**
If RMB weakens against HKD	**5**	**4,624**	**4,624**
If RMB strengthens against HKD	**(5)**	**(4,624)**	**(4,624)**
2019			
If RMB weakens against USD	5	13	13
If RMB strengthens against USD	(5)	(13)	(13)
If RMB weakens against HKD	5	6	5
If RMB strengthens against HKD	(5)	(6)	(5)

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	5,128	5,128
Financial assets included in prepayments, other receivables and other assets					
— normal**	7,086	—	—	—	7,086
Cash and cash balances					
— Not yet past due	158,898	—	—	—	158,898
	165,984	—	—	5,128	171,112

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	8,321	8,321
Financial assets included in prepayments, other receivables and other assets					
— normal**	3,814	—	—	—	3,814
Debt investments at amortised cost					
— normal**	11,055	—	—	—	11,055
Due from related companies					
— Not yet past due	865	—	—	—	865
Cash and cash balances					
— Not yet past due	49,410	—	—	—	49,410
	65,144	—	—	8,321	73,465

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the expected credit loss rate is disclosed in note 20 to the financial statements.*

** *The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".*

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at 31 December 2020

	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	—	7,472	17,950	—	25,422
Trade payables	12,155	—	—	—	12,155
Interest-bearing bank borrowings	—	13,277	—	—	13,277
Financial liabilities included in other payables and accruals	10,307	—	—	—	10,307
	22,462	20,749	17,950	—	61,161

As at 31 December 2019

	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	—	6,921	24,651	—	31,572
Trade payables	8,475	—	—	—	8,475
Due to the controlling shareholder	3,338	—	—	—	3,338
Due to related companies	245	—	—	—	245
Interest-bearing bank borrowings	—	7,279	—	—	7,279
Financial liabilities included in other payables and accruals	10,112	—	—	—	10,112
	22,170	14,200	24,651	—	61,021

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year.

39 EVENT AFTER THE REPORTING PERIOD

On 20 January 2021, the Company issued and allotted 34,040,000 shares at HKD0.40 per share due to the partial exercise of the over-allotment option of the Listing.

40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 **RMB'000**	2019 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	**322**	322
CURRENT ASSETS		
Prepayments, other receivables and other assets	**661**	6,660
Due from related companies	**57,565**	67,285
Cash and cash equivalents	**95,121**	1,762
Total current assets	**153,347**	75,707
CURRENT LIABILITIES		
Due to related companies	**2,267**	—
Other payables and accruals	**2,679**	3
Total current liabilities	**4,946**	3
NET CURRENT ASSETS	**148,401**	75,704
TOTAL ASSETS LESS CURRENT LIABILITIES	**148,723**	76,026
NET ASSETS	**148,723**	76,026
EQUITY		
Equity attributable to owners of the parent		
Share capital	**134,060**	4
Reserves	**14,663**	76,022
Total equity	**148,723**	76,026

40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

A summary of the Company's reserves is as follows:

	Notes	**Share capital** RMB'000	**Capital reserve** RMB'000	**Retained earnings** RMB'000	**Total equity** RMB'000
At 1 January 2019		325	—	—	325
Total comprehensive income for the year		—	—	8,237	8,236
Repurchase and cancellation of shares	*30(ii)*	(322)	—	—	(322)
Issue of shares	*30(iii)*	1	79,747	—	79,748
Dividends declared to the then shareholders		—	—	(11,961)	(11,961)
At 31 December 2019		4	79,747	(3,725)	76,026
At 1 January 2020		**4**	**79,747**	**(3,725)**	**76,026**
Total comprehensive loss for the year		**—**	**—**	**(15,920)**	**(15,920)**
Issue of shares from initial public offering	*30(iv)*	**22,343**	**93,527**	**—**	**115,870**
Share issue expenses		**—**	**(27,253)**	**—**	**(27,253)**
Capitalisation Issue	*30(v)*	**111,713**	**(111,713)**	**—**	**—**
At 31 December 2020		**134,060**	**34,308**	**(19,645)**	**148,723**

41 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2021.

FOUR-YEAR FINANCIAL SUMMARY

	Year ended 31 December			
	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Results				
Revenue	**164,545**	191,156	158,935	112,932
Profit before tax	**11,567**	16,388	26,383	23,332
Income tax expense	**(6,656)**	(6,111)	(7,965)	(5,927)
Annual profit and annual total comprehensive income attributable to owners of the Company	**4,911**	10,277	18,418	17,405

	As at 31 December			
	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities				
Total assets	**272,332**	183,133	117,836	82,097
Total liabilities	**85,582**	89,858	102,846	66,430
Equity attributable to owners of the Company	**185,873**	93,058	15,041	16,281