

## CONNECTED TRANSACTIONS

### OUR CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions with Hainan Qiyian, a company controlled by our Controlling Shareholders which will continue following the [REDACTED], thereby constituting continuing connected transactions of our Group under Chapter 14A of the Listing Rules. Mr. Li Yang, our chairman of the Board is directly interested in 0.01% of Hainan Qiyian's registered share capital and the remaining 99.99% of Hainan Qiyian's registered share capital are held by Shanghai Qishi, a limited partnership that is in turn controlled by Mr. Li and Ms. Li. Hainan Qiyian is therefore regarded as a connected person of our Company. For further information regarding the shareholding of Shanghai Qishi, please refer to the section headed "Relationship with our Controlling Shareholders" in this document.

Hainan Qiyian operates a hospital based in the Bo' Ao, Hainan province. It primarily provides medical services with a focus on the research, development and application of innovative technologies. For further information regarding Hainan Qiyian, please refer to the section headed "Relationship with our Controlling Shareholders" in this document.

#### **Continuing Connected Transactions Subject To the Reporting, Annual Review and Announcement Requirements but Exempt From the Independent Shareholders' Approval Requirement**

##### *1. The Cooperation Agreement*

**Principal terms and Listing Rules Implications:** Shanghai Beauty Farm entered into a cooperation agreement with Hainan Qiyian in January 1, 2022 (the "**Cooperation Agreement**"), pursuant to which we will recommend and refer our clients to Hainan Qiyian based on our clients' needs and suitability for Hainan Qiyian's services in return for a cooperation fee. Shanghai Beauty Farm is responsible for providing consultations to our clients, coordinating and scheduling of meeting between the client and Hainan Qiyian, client relationship maintenance and other administrative tasks required to facilitate the cooperation. Shanghai Beauty Farm will only provide clients' information and refer them to Hainan Qiyian with the client's consent. In addition, Hainan Qiyian will also exclusively refer its patients in need of Group Diagnostic Services (including functional assessment and sub-health assessment services for overall health conditions, chronic disease, mental health screening and electrical impedance analysis on the digestive system) to the Group (the "**Diagnostic Service Referral**").

**Pricing policies:** Shanghai Beauty Farm shall receive a cooperation fee which will be equal to 60% of a referred client's actual spending with Hainan Qiyian in exchange for the services provided by the Group and Hainan Qiyian shall charge such referred clients fees in accordance with the price list applicable to all clients. We shall charge such referred clients no other fees in relation to services provided by Hainan Qiyian and to the extent the clients are referred through our franchised stores that provide services to them, part of the cooperation fee will be paid directly to the franchised stores. The cooperation fee will be invoiced and settled between Shanghai Beauty Farm and Hainan Qiyian on a monthly basis. The calculation of the cooperation fee was determined through arm's length negotiation between Hainan Qiyian and Shanghai Beauty Farm with reference to similar

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cooperation arrangements and is no less favorable to our Group than cooperation fee that our Group charges Independent Third Parties who sought similar services from our Group. The cooperation arrangement between the Group and Hainan Qiyan is in line with cooperation arrangement between Hainan Qiyan and other independent service providers. Frost & Sullivan has confirmed that the term of the Cooperation Agreement (including the 60% cooperation fee arrangement) is comparable and in line with the general market practices with regards to such cooperation arrangements. Hainan Qiyan will not charge any referral fee for the Diagnostic Service Referral and the Group will directly charge Hainan Qiyan's referred patients in accordance with the Group's standard rates for the relevant Group Diagnostic Services.

**Term:** The Cooperation Agreement is valid from January 1, 2022 to December 31, 2024 and may be renewed at the expiration of the durations for three-year period by agreement of the parties and conditional upon satisfaction of applicable laws and regulations, Listing Rules and other regulatory requirements.

**Reason for the transaction:** The business operations of Hainan Qiyan, namely, operation of a hospital with a focus on research, development and application of innovative technologies, is not the focus of the Group's core services offering given Hainan Qiyan's innovative and research oriented nature. Our Group therefore considers that as the operation of such innovative business involving licensed drugs, licensed medical devices and licensed regenerative medicine research would require significant dedication of management attention, which should be focused on other areas of our business. As our clients have a need for such type of treatments relying on frontier technologies and innovative products, the Group could facilitate their need for such services that are not offered by our Group through our cooperation with Hainan Qiyan. For further details, please refer to the section headed "Relationship with our Controlling Shareholders" in this document.

**Historical amounts:** For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the transaction amounts (inclusive of VAT) attributable to the cooperation services provided to Hainan Qiyan was RMB5.39 million, RMB16.92 million, RMB18.07 million and RMB10.8 million, respectively. Prior to our Group's disposal of Hainan Qiyan in December 2020, the transactions between Hainan Qiyan and our Group was recognized as intra-group transactions.

**Annual cap and basis of cap:** For the years ending December 31, 2022, 2023 and 2024, the total amount payable by Hainan Qiyan to our Group should not exceed RMB24.50 million, RMB29.50 million and RMB34.50 million, respectively. The annual cap was determined by our Directors having considered (i) the historical transaction amounts paid by Hainan Qiyan to Shanghai Beauty Farm during the Track Record Period and (ii) the volume of business that Shanghai Beauty Farm expects to generate taking into account our business growth and increase in potential referral that we are able to generate. The transaction amount for the six months ended June 30, 2022 is lower than the pro-rated annual cap for 2022 given the restriction on mobility and patients' ability to visit Hainan Qiyan during the relevant period as a result of the resurgence of COVID-19 in various cities in the PRC. It is expected that transactions under the Cooperation Agreement will ramp up as mobility and social distancing restrictions as eased in the future and the scale

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of the cooperation will continue to grow in line with the increase of the annual cap. For instance, the transaction amount (inclusive of VAT) under the Cooperation Agreement was approximately RMB2.8 million in June 2022, having benefited from eased mobility restrictions during the month as well as the general increase of inter-provinces travels during the summer holiday.

**Implication under the Listing Rules:** Given that the applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the Cooperation Agreement will be less than 5% but more than HK\$3 million on an annual basis, under Rule 14A.76 of the Listing Rules, the transactions under the Cooperation Agreement will be subject to the reporting, announcement, annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

### 2. *The Property Lease Agreement*

**Principal terms and Listing Rules Implications:** Hainan Meirui International Medical Health Industry Co., Ltd (海南美瑞國際醫療健康產業有限公司, "Hainan Meirui") entered into a property lease agreement dated January 1, 2022 with Hainan Qiyian (the "Property Lease Agreement"), pursuant to which Hainan Qiyian leases from Hainan Meirui for business operation and dormitory space in Bo' Ao, Hainan province with an aggregate area of 4,618 sq.m. The Group also has an option to terminate the lease with Hainan Qiyian at any time shall Hainan Qiyian commits a breach in any of its agreements or undertaking entered into with, or for the benefit of the Group, including the Cooperation Agreement and the Hainan Qiyian Deed of Non-Competition.

**Pricing policies:** The rent to be charged is RMB6.40 million, RMB6.72 million and RMB7.06 million per annum for the year 2022, 2023 and 2024, respectively. The rent was determined by Hainan Qiyian and our Group through arm's length negotiation based on a number of factors including but not limited to the prevailing market rent of similar property located in the vicinity and the terms of the lease and the rent payable is exclusive of utilities usage which Hainan Qiyian pays directly to the relevant utilities service provider.

**Term:** The Property Lease Agreement is valid from January 1, 2022 to December 31, 2024 and may be renewed at the expiration of the durations for three-year period by agreement of the parties and conditional upon satisfaction of applicable laws and regulations and the Listing Rules.

**Reason for the transaction:** Hainan Qiyian was our subsidiary until December 25, 2020 when Hainan Meirui, our wholly-owned subsidiary, transferred 99.99% and 0.01% equity interest to Shanghai Qishi and Mr. Li Yang, respectively. Hainan Qiyian has leased the premise in Bo' Ao, Hainan Province from our Group historically and such lease provides an additional source of income for the Group, the property lease arrangement has begun 2019 when Hainan Qiyian first began its operations. The Property Lease Agreement also deepens our cooperation with Hainan Qiyian and create additional synergy through the proximity of the business premise of Hainan Qiyian and our Company in Hainan province.

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**Historical amounts:** For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the rent attributable to the lease of the premise to Hainan Qiyan was RMB0.50 million, RMB3.71 million, RMB6.10 million and RMB3.2 million, respectively. The rent received by Hainan Meirui for the year ended December 31, 2019 represented rent charged in the final quarter of the financial year after Hainan Qiyan's commencement of business and Hainan Meirui also provided rental relief during the commencement stages of Hainan Qiyan's operations. The rent also further increased in 2021 as Hainan Qiyan rented ancillary space of approximately 849 sq.m. from the Company during the year. Prior to our Group's disposal of Hainan Qiyan in December 2020, the transactions between Hainan Qiyan and our Group was recognized as intra-group transactions.

**Annual cap and basis of cap:** For the years ending December 31, 2022, 2023 and 2024, the total rent payable by Hainan Qiyan to Hainan Meirui should not exceed RMB6.40 million, RMB6.72 million and RMB7.06 million, respectively. The annual cap was determined by our Directors having considered the rent payable pursuant to the terms of the Property Lease Agreement and their expected usage of the utilities as set forth under the Property Lease Agreement, which factored into account a 5% annual rent increase.

**Implication under the Listing Rules:** Given that the applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the Property Lease Agreement will be less than 5% but more than HK\$3 million on an annual basis, under Rule 14A.76 of the Listing Rules, the transactions under the Property Lease Agreement will be subject to the reporting, announcement, annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

### Non-Exempt Continuing Connected Transactions — Contractual Arrangements

#### *Background of the Contractual Arrangement*

As disclosed in the section headed "Contractual Arrangements" of this document, due to regulatory restrictions on foreign ownership in the PRC, we are restricted from directly owning 100% equity interest in the Medical Institutions. Therefore, in order for our Group to effectively control and enjoy the entire economic benefit of the Medical Institutions, a series of Contractual Arrangements have been entered into among Shanghai Liernuo, and Mr. Li. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits of the Medical Institutions and Shanghai Liernuo; (ii) exercise effective full control over the Medical Institutions and Shanghai Liernuo; and (iii) hold an exclusive option to purchase all or part of the equity interests in the Medical Institutions and/or Shanghai Liernuo when and to the extent permitted by PRC law.

#### *Principal Terms of the Transactions*

The Contractual Arrangements consist of five types of agreements: (a) the Exclusive Operation Services Agreement; (b) the Exclusive Purchase Option Agreements; (c) the Shareholders' Rights Entrustment Agreements; (d) the Equity Pledge Agreements; and (e) the Spouse Undertakings (all as defined in the section headed "Contractual Arrangements" in this document, the "Contractual Arrangements Agreements"). See "Contractual Arrangements" in this document for detailed terms of the Contractual Arrangements.

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### *Listing Rules Implications*

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon [REDACTED] as Mr. Li is a connected persons of the Group. Mr. Li is one of our Controlling Shareholders and an executive Director.

### *Reasons for the Continuing Connected Transactions and Waiver Application*

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Having taken into account the reasons disclosed in this section, nothing has come into Sponsors' attention to cast doubt on the reasonableness of the Company's view that the Contractual Arrangements are fundamental to the Group's legal structure and business operations. In addition, given the Contractual Arrangements were entered into prior to the [REDACTED] and are disclosed in this document, and potential investors of our Company will participate in the [REDACTED] on the basis of such disclosure. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

## INTERNAL CONTROL MEASURES FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have established the following internal review procedures to ensure that the terms for the non-exempt continuing connected transactions we have or may have in the future are on normal commercial terms and no more favorable to the counterparties than terms available to Independent Third Parties:

- If a comparable market price is available, we shall compare the proposed product price or service fee with the market price to ensure that the proposed product price or service fee will not be higher than the selling price of product or service of a similar type or nature provided by Independent Third Party suppliers or providers;
- Before selecting a product supplier or services provider, our procurement department shall obtain price quotations from certain Independent Third Party suppliers or providers. The factors to be considered by us in conducting internal assessments include price, quality, exclusivity of product or service, and value added to us;

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- If no comparable market price is available, our procurement department shall conduct arm's length negotiation with the relevant connected person to determine the terms in line with the relevant pricing policies based on trade cost of the product involved or value of the relevant service and the actual costs and expenses incurred;
- After arm's length negotiation with the connected person, our procurement department will report to our senior management who will approve individual transactions as appropriate;
- Our internal audit department will regularly collect and monitor the transaction amount of continuing connected transactions to ensure timely assessment on whether the annual caps (if applicable) are exceeded; and
- Our independent non-executive Directors will also conduct annual review on the non-exempt continuing connected transactions to ensure that such transactions have been entered into on normal commercial terms, are fair and reasonable and conducted according to the terms of the relevant framework agreement. The auditor of our Company will also conduct annual review on the pricing and annual cap (if applicable) of the non-exempt continuing connected transactions.

### DIRECTORS' AND JOINT SPONSORS' VIEW

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described under the sub-section entitled "— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" have been and will be carried out (i) in the ordinary and usual course of our business, (ii) on normal commercial terms or better and (iii) in accordance with the respective terms and annual cap that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors confirm that save for the requirements as waived by the Stock Exchange pursuant to the Company's waiver application as detailed below, the Company will comply with all other applicable requirements under Chapter 14A of the Listing Rules.

Our Directors (including our independent non-executive Directors) are also of the view that the Contractual Arrangements as detailed in the section headed "— Non-exempt Continuing Connected Transactions — Contractual Arrangements" and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and with respect to the term of the Contractual Arrangements which is of a duration of longer than three years, taking into consideration the reasons for entering into the Contractual Arrangements with details set out in this section above, it is reasonable for these agreements to be for a duration of more than three years and it is normal business practice for agreements of this type to be of such duration. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute

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continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

The Joint Sponsors are of the view (i) that the continuing connected transactions described under the sub-section entitled "— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" and "— Non-exempt Continuing Connected Transactions — Contractual Arrangements" in this section have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or better, and in accordance with the respective terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) that the proposed annual caps of such continuing connected transactions are fair and reasonable, and in the interests of our Company and our Shareholders as a whole. The Joint Sponsors also concur with our Directors' view that the duration of the Contractual Arrangements is in line with normal business practice.

### **WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

The transactions described under the sub-section entitled "— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" in this section constitute our continuing connected transactions under the Listing Rules, which are exempt from the independent Shareholders' approval requirements but subject to the reporting, annual review, announcement requirements of the Listing Rules.

In respect of these continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has [granted], waivers exempting us from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transactions as disclosed in "— Continuing Connected Transactions subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" in this section, subject to the conditions that the aggregate amounts of the continuing connected transactions for each financial year shall not exceed the relevant amounts set forth in the respective annual caps (as stated above).

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In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has [granted], a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are [REDACTED] on the [REDACTED] subject however to the following conditions:

- (a) **No change without independent non-executive Directors' approval.** No change to the Contractual Arrangements (including with respect to any fees payable to Shanghai Liernuo thereunder) will be made without the approval of our independent non-executive Directors.
- (b) **No change without independent Shareholders' approval.** Save as described in "(d) Renewal and reproduction" below, no change to the agreements constituting the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement, circular or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in "(e) Ongoing reporting and approvals" below) will however continue to be applicable.
- (c) **Economic benefits flexibility.** The Contractual Arrangements shall continue to enable our Group to receive the entire economic benefits derived by the Medical Institutions and Shanghai Liernuo through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests in Shanghai Liernuo and/or the Medical Institutions for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the entire profit generated by the Medical Institutions and Shanghai Liernuo is retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Shanghai Beauty Farm by Shanghai Liernuo under the Exclusive Consultation and Service Agreement, and (iii) the Group's right to control the management and operation of, in substance, all of the voting rights of the Medical Institutions and Shanghai Liernuo.



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- (d) **Renewal and reproduction.** On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Shanghai Liernuo, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new foreign invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new foreign invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.
- (e) **Ongoing reporting and approvals.** Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:
- (i) The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
  - (ii) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the Medical Institutions to Shanghai Liernuo or by Shanghai Liernuo to Mr. Li 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 Shanghai Liernuo during the relevant financial period under paragraph (iii) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

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- (iii) Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Medical Institutions to Shanghai Liernuo or by Shanghai Liernuo to Mr. Li which are not otherwise subsequently assigned or transferred to our Group.
- (iv) For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the Medical Institutions and Shanghai Liernuo will be treated as our Company's wholly-owned subsidiary, and at the same time, the directors, chief executive officers or substantial shareholders of the Medical Institutions and Shanghai Liernuo (where applicable) and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Medical Institutions), and transactions between these connected persons and our Group (including for this purpose, the Medical Institutions), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- (v) Shanghai Liernuo will undertake that, for so long as the Shares are [REDACTED] on the [REDACTED], Shanghai Liernuo will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the connected transactions.