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

ESTABLISHMENT OF NEW CONTRACTUAL ARRANGEMENTS

Reference is made to the announcement of the Company dated March 26, 2024, April 17, 2024 and April 18, 2024 (the "**Announcements**") in relation to, amongst other things, the Acquisition including the Pre-Completion Reorganization pursuant to which the Group will be acquiring equity interest in 8 medical institutions (the "**Restricted Medical Institutions**") which are subject to foreign ownership restrictions pursuant to The Special Administrative Measures for the Access of Foreign Investment (Negative List) (外商投資准入特別管理措施(負面清單)) (the "**Foreign Ownership Restriction**") in order to effect the Acquisition. Unless otherwise defined, capitalized terms used in this announcement shall have the same meaning as used in the Announcements.

THE NEW CONTRACTUAL ARRANGEMENT

The Board hereby announces that in order to facilitate the Pre-Completion Reorganization, the Company has announced that it will enter into the New Contractual Arrangement, pursuant to which the Target Company will control 30% of the equity interest in the eight restricted medical institutions forming part of the Target Assets through Shanghai Liernuo (the "**New Contractual Arrangements**"). The Company is pleased to announcement that as part of the Pre-Completion Reorganization, the Company will enter into the New Contractual Arrangements. The New Contractual Arrangements will be substantially similar with the contractual arrangements established by the Company at the time of its listing for which the Stock Exchange has granted a waiver, please refer to the Prospectus for further details of the Contractual Arrangements.

* *For identification purposes only*

Listing Rules Implications

Mr. Li Yang is an executive Director and controlling shareholder of the Company and is also the registered shareholder of Shanghai Liernuo, the New Contractual Arrangements therefore constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

The Company has applied to the Stock Exchange in relation to the New Contractual Arrangements, and the Stock Exchange has granted a waiver from and to be exempted of (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions 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 Company remains listed on the Stock Exchange and subject to the conditions as detailed below (the "**New Contractual Arrangements Waiver**").

Reasons for and Benefit of the New Contractual Arrangements

As disclosed in the Announcements, the ownership of medical institution within the PRC is subject to certain Foreign Ownership Restriction and therefore in order to give effect to the Acquisition, the Group will have to rely on certain contractual arrangement which are in place to exercise control over the operation of and control equity interest of medical institutions operated by the Group. The Company will terminate the Contractual Arrangements and New Contractual Arrangements as soon as the law allows the medical institutions to be operated without such arrangements.

Grandall Law Firm (Shanghai) (the "**PRC Legal Adviser**") has reviewed the New Contractual Arrangement and is of the view that:

a. The use of the New Contractual Arrangements does not constitute a breach of applicable laws and regulations of the PRC in any material respect;

b. Each agreements under the New Contractual Arrangements constitutes legal, valid and binding obligations of the parties thereto, and would not be deemed invalid or ineffective under relevant PRC laws and regulations; and

c. Based on an analysis of the PRC Civil Code (中華人民共和國民法典) and the Company's confirmation, the New Contractual Arrangements would not be deemed as 'concealing illegal intentions with a lawful form' and void under the PRC Civil Code.

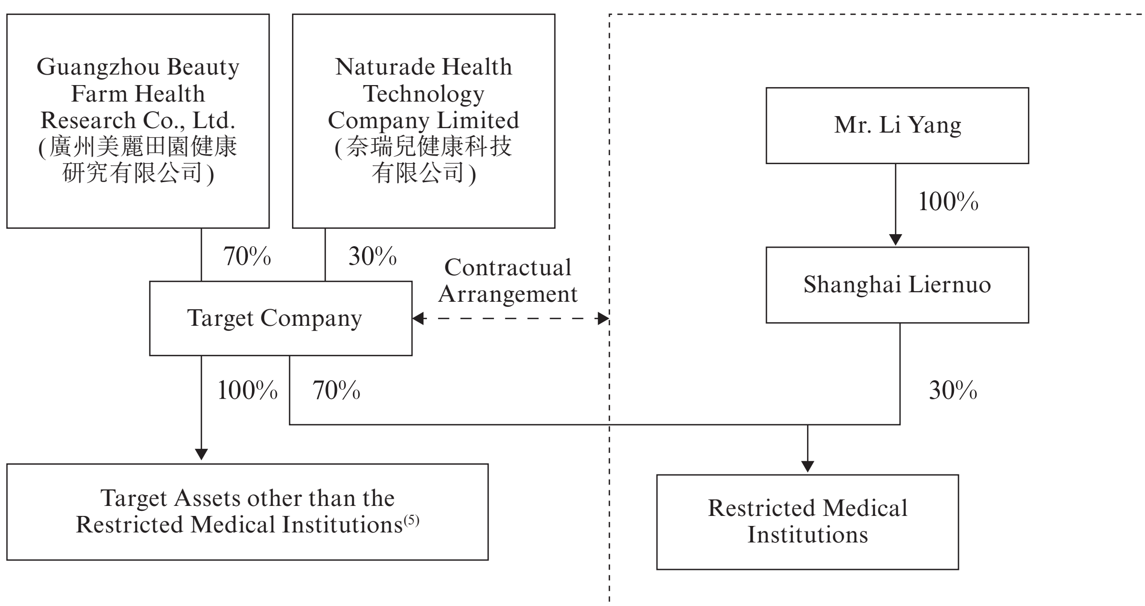
Based on the above analysis and advice from the PRC Legal Adviser, the Company is of the view that:

a. the New Contractual Arrangement is narrowly tailored to address solely the Foreign Ownership Restriction and enable the Company to achieve its business purposes and minimize the potential conflict with the relevant PRC laws and regulations;

b. foreign ownership of medical institutions is restricted to no more than 70% pursuant to the Foreign Ownership Restrictions and there are no approval or any additional eligibility standards to be fulfilled which would enable foreign owners to acquire additional interest in a medical institution; and

c. there are no relevant laws and regulations which specifically restrict foreign investment or disallow foreign investor from using any agreement or contractual arrangements to gain control of or operate medical institutions in the PRC.

The following simplified diagram illustrates the flow of economic benefits from the Restricted Medical Institutions to be acquired in the Acquisition:



Notes:

(1) Mr. Li Yang, the Chairman of the Board and an executive Director is the registered shareholder of Shanghai Liernuo.

(2) “〈---------〉” denotes direct legal and beneficial ownership in the equity interest.

(3) “〈– – – – -〉” denotes contractual relationship.

(4) “– – – – -” denotes the entities that are subject to the New Contractual Arrangements.

(5) The Target Assets consists of the 80 beauty and wellness service stores, 6 aesthetic medical clinics (one of which also operates the sub-health medical business) and 2 Chinese medicine outpatient clinics.

Material Terms of the New Contractual Arrangement

The agreements underlying the New Contractual Arrangement will include (i) an exclusive operation services agreement to be entered into between Mr. Li Yang, the Target Company, Shanghai Liernuo and the Restricted Medical Institutions; (ii) an exclusive purchase option agreements to be entered into between Mr. Li Yang, the Target Company, Shanghai Liernuo and the Restricted Medical Institutions; (iii) a shareholders' rights entrustment agreements to be entered into between the Target Company, Shanghai Liernuo and the Restricted Medical Institutions, (iv) an equity pledge agreements to be entered into between Mr. Li Yang, the Target Company, Shanghai Liernuo and the Restricted Medical Institutions; and (v) a spouse undertaking to be entered into by the spouse of Mr. Li Yang.

The summary of material terms of the New Contractual Arrangements is set out below:

(1) Exclusive Operation Services Agreement

Mr. Li Yang, the Target Company and the Restricted Medical Institutions will enter into an exclusive operation services agreement with Shanghai Liernuo (the "**Exclusive Operation Services Agreement**"), pursuant to which, the Restricted Medical Institutions, Mr. Li Yang and Shanghai Liernuo will engage the Target Company as their exclusive provider of technical support, consulting services and other services in exchange for a service fee.

Under the Exclusive Operation Services Agreement, the services to be provided include but are not limited to (i) business, financing and investment, (ii) medical technology related consultation, medical resources sharing and medical professionals training, (iii) human resources management, (iv) market research, (v) strategies for marketing and business expansion, (vi) supplier and inventory management, (vii) operation and marketing strategy formulation and monitoring, (viii) medical service quality control, (ix) internal management and (x) other services relating to management and operation of medical institutions. The Target Company has proprietary rights to all the intellectual properties developed or created by itself from the performance of these services. During the term of the Exclusive Operation Service Agreement, the Target Company may use the intellectual property rights owned by Shanghai Liernuo and the Restricted Medical Institutions free of charge and without any conditions. Shanghai Liernuo and the Restricted Medical Institutions may also use the intellectual property work created by the Target Company from the services performed by the Target Company in accordance with the Exclusive Operation Service Agreement.

The service fee shall be an amount equal to the distributable net profit of the Restricted Medical Institutions of a given audited financial year, after deducting losses from the previous financial years (if any) and any statutory provident fund (if applicable). Apart from the service fees, Shanghai Liernuo and the Restricted Medical Institutions shall reimburse all reasonable costs, reimbursed payments and out-of-pocket expenses incurred by the Target Company in connection with the performance of the Exclusive Operation Services Agreement and provision of services.

Absent of a prior written consent of the Target Company, during the term of the Exclusive Operation Services Agreement, Mr. Li Yang, Shanghai Liernuo and the Restricted Medical Institutions shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar corporation relationships with any third party. The Target Company has the right to appoint any third party to provide any or all of the services, or to fulfill its obligations under the Exclusive Operation Services Agreement.

(2) Exclusive Purchase Option Agreements

The Target Company, Mr. Li, Shanghai Liernuo, and the Restricted Medical Institutions will also enter into the exclusive purchase option agreements (the "**Exclusive Purchase Option Agreements**").

Pursuant to the Exclusive Purchase Option Agreements, (i) Mr. Li Yang will irrevocably and unconditionally grants an exclusive option to the Target Company which entitles the Target Company to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interest in Shanghai Liernuo itself or through its designated person(s), (ii) Shanghai Liernuo will irrevocably and unconditionally grants an exclusive option to the Target Company which entitles the Target Company to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Shanghai Liernuo itself or through its designated person(s), (iii) Shanghai Liernuo will irrevocably and unconditionally grants an exclusive option to the Target Company which entitles the Target Company or its designated person to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests held by Shanghai Liernuo in the Restricted Medical Institutions from Shanghai Liernuo itself or through the Target Company's designated person(s), (iv) the Restricted Medical Institutions will irrevocably and unconditionally grants an exclusive option to the Target Company which entitles the Target Company to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests of the Restricted Medical Institutions, and (v) the Restricted Medical Institutions will irrevocably and unconditionally grant an exclusive option to the Target Company which entitles the Target Company to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the Restricted Medical Institutions from the Restricted Medical Institutions directly or indirectly attributable to Shanghai Liernuo themselves or through the Target Company's designated person(s), the Target Company may appoint designated person(s) in its sole discretion when exercising its option. The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of Mr. Li Yang, Shanghai

Liernuo and the Restricted Medical Institutions will undertake that he/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer of equity interests or assets to the Target Company and/or its designated person(s) within ten (10) business days.

Mr. Li Yang and Shanghai Liernuo undertake to develop the business of the Restricted Medical Institutions and not to take any action which may affect their asset value, goodwill and effectiveness of business licenses. Furthermore, in the absence of prior written consent of the Target Company, Mr. Li Yang and Shanghai Liernuo shall not (i) transfer or otherwise dispose of any option under the Exclusive Purchase Option Agreements, or create any encumbrances thereon; and the Restricted Medical Institutions shall not assist in transferring or otherwise disposing of any option under the Exclusive Purchase Option Agreements, or creating any encumbrances thereon; and (ii) directly or indirectly (by itself or through the entrustment of any other natural person or legal person entity) carry out, own or acquire any business compete with or likely compete with the business of the Target Company or the Group.

(3) Shareholders' Rights Entrustment Agreements

The Target Company, Mr. Li Yang, Shanghai Liernuo and the Restricted Medical Institutions will enter into the shareholders' rights entrustment agreements (the "**Shareholders' Rights Entrustment Agreements**").

Pursuant to the Shareholders' Rights Entrustment Agreements, (i) Mr. Li Yang will irrevocably agree to authorize the Target Company (and its successors or liquidators) or a natural person designated by the Target Company to exercise all of its rights and powers as a shareholder of Shanghai Liernuo, including the rights to vote at a shareholders' meeting, sign minutes, and file documents with the relevant companies registry, (ii) Shanghai Liernuo will irrevocably agree to authorize the Target Company (and its successors or liquidators) or a natural person designated by the Target Company to exercise all of its rights and powers as a shareholder of the Restricted Medical Institutions (as applicable), including the rights to vote at a shareholders' meeting, sign minutes, and file documents with the relevant companies registry. Pursuant to the Shareholders' Rights Entrustment Agreements, the power of attorney granted in favor of the Target Company and actions it takes in relation to the New Contractual Arrangements will only be decided by officers or Directors other than Mr. Li Yang (being a registered holder). As the Target Company is a subsidiary of the Company, the terms of the Shareholders' Rights Entrustment Agreements will give the Company control over all corporate decisions of the Restricted Medical Institutions and 100% equity interests of Shanghai Liernuo.

The Shareholders' Rights Entrustment Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except the Target Company) is entitled to unilaterally terminate it.

(4) Equity Pledge Agreements

Shanghai Liernuo, Mr. Li Yang, the Target Company and the Restricted Medical Institutions will enter into the equity pledge agreements (the "**Equity Pledge Agreements**"). Pursuant to the Equity Pledge Agreements, (i) Mr. Li Yang will agree to pledge all of his equity interests in Shanghai Liernuo, and (ii) Shanghai Liernuo will agree to pledge all of its equity interests in the Restricted Medical Institutions to the Target Company to secure performance of all their obligations and the obligations of Mr. Li Yang, Shanghai Liernuo and the Restricted Medical Institutions under the Exclusive Operation Services Agreement, the Exclusive Purchase Option Agreements, the Shareholders' Rights Entrustment Agreements and the Equity Pledge Agreements underlying the New Contractual Arrangements.

If Shanghai Liernuo or the Restricted Medical Institutions declare any dividend during the term of the pledge, the Target Company is entitled to receive all dividends or other income arising from the pledged equity interests, if any. In case of any breach of obligations by any of Shanghai Liernuo, Mr. Li Yang or the Restricted Medical Institutions, upon issuing a written notice to Mr. Li Yang or Shanghai Liernuo, the Target Company will be entitled to all remedies available in the New Contractual Arrangements including but not limited to disposing of the pledged equity interests.

In addition, pursuant to the Equity Pledge Agreements, Mr. Li Yang and Shanghai Liernuo will undertake to the Target Company, among other things, not to transfer their pledged equity interests and not to create or allow any pledge or encumbrance thereon that may affect the rights and interest of the Target Company without its prior written consent. Shanghai Liernuo and the Restricted Medical Institutions undertake to the Target Company, among other things, not to consent to any transfer the pledged equity interests or to create or allow any pledge or encumbrance thereon without the Target Company's prior written consent.

Each of the Equity Pledge Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by applicable PRC laws and regulations, none of the parties to the agreement (except the Target Company) is entitled to unilaterally terminate it.

(5) Spouse Undertakings

The spouse of Mr. Li Yang will sign an undertaking (the "**Spouse Undertaking**") to the effect that she has no right to or control over such interests of the respective persons and will not have any claim on such interests.

Dispute Resolution

Each of the agreements under the New Contractual Arrangements will contain a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the New Contractual Arrangements, any party has the right to submit the relevant dispute to the Shanghai Arbitration Commission for arbitration, in accordance with the then effective arbitration rules.

The language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of Mr. Li Yang, Shanghai Liernuo and the Restricted Medical Institutions or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Shanghai Liernuo and the Restricted Medical Institutions; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of the Target Company or Shanghai Liernuo or the Restricted Medical Institutions are located for interim remedies or injunctive relief.

Succession

As advised by our PRC Legal Advisers, the provisions set out in the New Contractual Arrangements will also be binding on any successor(s) of Mr. Li Yang (in the event of death, bankruptcy, incapacity, divorce, succession or other circumstances affecting Mr. Li Yang's holding of Shanghai Liernuo equity interest) as if such successors were a signing party to the New Contractual Arrangements. As such, any breach by the successors would be deemed to be a breach of the New Contractual Arrangements. Under the PRC Civil Code, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents. In the case of a breach, the Target Company can enforce its rights against the successors. Pursuant to the New Contractual Arrangements, in the event of changes in the shareholding of Shanghai Liernuo, any successor(s) of Shanghai Liernuo shall assume any and all rights and obligations of Shanghai Liernuo under the New Contractual Arrangements as if such successor were a signing party to the relevant contract.

In light of the above, the Company confirms that the interest of the Company can be protected pursuant to applicable laws and regulations, and appropriate arrangements have been made to protect the Company's interests in the event of Mr. Li Yang's death, bankruptcy or divorce to avoid any practical difficulties in enforcing the New Contractual Arrangements.

Conflicts of Interests

Mr. Li Yang and Shanghai Liernuo undertake that, during the period that the New Contractual Arrangements remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with the Target Company or its direct or indirect shareholders. If there is any conflict of interest, the Target Company shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. Mr. Li Yang and Shanghai Liernuo will unconditionally follow the instructions of the Target Company to take any action to eliminate such conflict of interest.

Liquidation

Pursuant to the Equity Interest Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of Shanghai Liernuo and the Restricted Medical Institutions shall, upon the request of the Target Company, give the proceeds they received from liquidation as a gift to the Target Company or its designee(s) to the extent permitted by the PRC laws.

Accordingly, in the event a winding up of Shanghai Liernuo and the Restricted Medical Institutions, the Target Company is entitled to liquidation proceeds of Shanghai Liernuo and the Restricted Medical Institutions based on the New Contractual Arrangements for the benefit of our Company's creditors and shareholders.

Insurance

The Company does not maintain an insurance policy to cover the risks relating to the New Contractual Arrangements.

Legality of the New Contractual Arrangements

The PRC Legal Adviser is of the view that:

a. each of the agreements under the New Contractual Arrangements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto, does not constitute a breach of relevant laws and regulations and would not be deemed invalid or ineffective under the relevant PRC laws and regulations; and

b. no approval or authorization from the PRC governmental authorities are required for entering into the New Contractual Arrangements except that each of the equity pledges under Equity Pledge Agreements is subject to registration requirements with the relevant Administration for Market Regulations and the exercising of the exclusive options by the Target Company, according to the Exclusive Purchase Option Agreements, shall be subject to the then effective PRC laws and regulations and relevant approval procedures (if applicable).

Furthermore, the PRC Civil Code (中華人民共和國民法典) came into effect on January 1, 2021 and the PRC Contract Law and the General Principles of the PRC Civil Law were repealed simultaneously. The PRC Civil Code stipulates certain circumstances which will lead to the invalidation of civil juristic acts, including but not limited to a civil juristic act performed by a person having no capacity for civil conducts, a civil juristic act performed by the actor and the counterparty based on false expression of intention, a civil juristic act violates the mandatory provisions of laws and administrative regulations, a civil juristic act violates of public order and morals, etc. The provisions on the validity of civil juristic acts also apply to the validity of contracts.

Based on the analysis below and the Company's confirmation, the PRC Legal Adviser of Company are of the view that the New Contractual Arrangements would not fall within the circumstances stipulated in the PRC Civil Code which will lead such arrangements as invalid civil juristic act:

Circumstances Stipulated in The PRC Civil Code Which Will Lead to The Invalidation of Civil Juristic Acts	**Analysis of the PRC Legal Adviser of the Company**
Article 144 — A civil juristic act performed by a person who has no capacity for performing civil juristic acts is void.	The parties to the New Contractual Arrangements has full capacity for performing civil juristic acts, hence it does not fall within the circumstances specified in this article.
Article 146 — A civil juristic act performed by a person and another person based on a false expression of intent is void.	All parties executed the New Contractual Arrangements based on a genuine expression of intent, hence it does not fall within the circumstances specified in this article.
Article 153 — A civil juristic act in violation of the mandatory provisions of laws or administrative regulations is void, unless such mandatory provisions do not lead to invalidity of such a civil juristic act. A civil juristic act that offends the public order or good morals is void.	The New Contractual Arrangements constitutes legal, valid and binding obligations of the parties thereto and the execution, delivery and performance of New Contractual Arrangements by the parties thereto, are not in violation of any mandatory provisions of current PRC Laws and regulations or do not result in any offense to public order or good morals in PRC, hence it does not fall within the circumstances specified in this article.

Article 154 — A civil juristic act is void if it is conducted through malicious collusion between a person who performs the act and a counterparty thereof and thus harms the lawful rights and interests of another person.	The execution, delivery and performance of New Contractual Arrangements by the parties thereto are based on a genuine expression of intent without the malicious collusion, hence it does not fall within the circumstances specified in this article.

As at the date of this announcement, the Company has not encountered any interference or encumbrance from any governing bodies in its plan to adopt the New Contractual Arrangements so that the financial results of the operation of the Restricted Medical Institutions can be consolidated to those of the Group. Based on the above analysis of the PRC Legal Adviser and subject to the limitations and restrictions set out herein, the Directors are of the view that the agreements under the New Contractual Arrangement conferring significant control and economics benefit from the Restricted Medical Institutions is enforceable under the relevant laws and regulations.

The Directors (including the independent non-executive Directors) are of the view that the establishment of the New Contractual Arrangements is fundamental to the Target Company's legal structure and business operations, that such transactions have been and shall be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Target Company, the Company and the Shareholders as a whole.

The Company has been advised by the PRC Legal Adviser, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC governmental authorities will not take a view that is different or otherwise contrary to the above opinion of the PRC Legal Adviser. The Company have been further advised by the PRC Legal Adviser that if the PRC governmental authorities finds that the New Contractual Arrangements do not comply with PRC government restrictions on foreign investment in medical institutions, the Group could be subject to severe penalties, which could include:

(a) revoking the business and/or operating licenses of relevant entities;

(b) restricting or prohibiting the New Contractual Arrangements;

(c) imposing fines or other requirements with which we may find difficult or impossible to comply; and

(d) requiring us to restructure the relevant ownership structure or operations.

Any of these events could cause significant disruption to the Group's business operations and severely damage its reputation, which could have a material adverse effect on its financial condition and results of operation. For details, please refer to the section headed "Risks and Limitations relation to the New Contractual Arrangements" in this announcement.

Development in the PRC Legislation on Foreign Investment and Ownership Restrictions

The Company's PRC Legal Adviser has confirmed that there has been no material development or updates of laws and regulations pertaining to the foreign investment and ownership restrictions since the date of the Prospectus, details of such restrictions are detailed in the section of the Prospectus headed "Contractual Arrangement — Summary of the Material Terms of the Contractual Arrangement — Development in the PRC Legislation on Foreign Investment".

Compliance with the New Contractual Arrangements

In relation to the Target Company's contractual arrangement, the Target Company has adopted certain measures to ensure the effective operation of the Target Company with the implementation and compliance of contractual arrangements, details of which are set out below:

(a) major issues arising from the implementation and compliance with the New Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(b) the Board will review the overall performance of and compliance with the New Contractual Arrangements at least once a year;

(c) the Company will disclose the overall performance and compliance with the New Contractual Arrangements in its annual reports to update the Shareholders and potential investors; and

(d) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of the Target Company, Shanghai Liernuo and the Restricted Medical Institutions to deal with specific issues or matters arising from the New Contractual Arrangements.

The Target Company will adhere and operate with reference to such measures in connection with the Contractual Arrangements and the New Contractual Arrangements.

Accounting Aspects of the New Contractual Arrangements

Pursuant to the Exclusive Operation Services Agreement, it will be agreed that, in consideration of the services provided by the Target Company, Shanghai Liernuo will pay service fees to the Target Company. The annual service fees payable are determined with the services provided. The amount and payment deadline will be determined by the Target Company and Shanghai Liernuo through arms' length negotiations after considering (i) the complexity and difficulty of the services provided by the Target Company, (ii) the title of and time consumed by employees of the Target Company providing the services, (iii) the contents and value of the services provided by the Target Company, (iv) the market price of the same type of services, (v) the operation conditions of Shanghai Liernuo, and (vi) the essential cost, expenses, taxes and statutory reserve or retaining funds. Accordingly, the Target Company has the ability, at its sole discretion, to extract substantially the economic benefit of all Restricted Medical Institutions held by Shanghai Liernuo.

In addition, under the exclusive operation services agreement of the New Contractual Arrangements, the Target Company has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of Shanghai Liernuo and the Restricted Medical Institutions as the Target Company's prior written consent is required before any distribution can be made. In the event that Shanghai Liernuo and Mr. Li Yang receive any profit distribution or dividend from the Restricted Medical Institutions, Shanghai Liernuo and Mr. Li Yang must immediately pay or transfer all of such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company.

As a result of the aforementioned New Contractual Arrangements, the Company has obtained control of the Restricted Medical Institutions through the Target Company and, at the Company's sole discretion, can receive the economic interest returns generated by through the New Contractual Arrangements pursuant to the Company's 70% equity interest in the Target Company. In addition to the businesses operated under the New Contractual Arrangements, the Target Company will also derive revenue from other businesses, including the 80 beauty and wellness service stores and its 70% direct equity interest in the Restricted Medical Institutions.

Opinion of the Independent Financial Adviser

According to Rule 14A.52 of the Listing Rules, the term of the New Contractual Arrangements must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. Taking into account the terms of the New Contractual Arrangements, Altus Capital Limited (the "**Independent Financial Adviser**") has been appointed as the independent financial adviser of the Company to explain why the New Contractual Arrangements require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

The Independent Financial Adviser is of the view and confirm that (i) a term of longer than three years is required for the New Contractual Arrangements; and (ii) it is a normal business practice for agreements of the type as the New Contractual Arrangements to be of such duration.

In arriving at its opinion, the Independent Financial Adviser has considered the following principal factors and reasons:

(i) the Group is principally engaged in the provision of beauty and wellness services, aesthetic medical services as well as sub-health medical services in the PRC. According to the Company's announcement dated March 26, 2024, the Acquisition involves the acquisition of 70% of the entire equity interest of the Target Company, which in turn will own the Naturade brand and operate the underlying stores upon Completion. The Acquisition will further enhance the Group's revenue and contribute to the Group's beauty and health ecosystem.

    As part of the Pre-Completion Reorganisation, the Group will be acquiring interest in the Restricted Medical Institutions. As disclosed in this announcement, as the ownership of medical institutions within the PRC is subject to Foreign Ownership Restriction, the Group has to enter into the New Contractual Arrangements in order to exercise control over the operation of and control equity interest of the Restricted Medical Institutions.

    In this respect, the Independent Financial Adviser notes that the entering into of the New Contractual Arrangements and the transactions contemplated thereunder are necessary to facilitate completion of the Acquisition, which in turn is beneficial to the Group as mentioned above;

(ii) it is not uncommon for foreign companies to enter into similar arrangements, such as the New Contractual Arrangements, in order to comply with the relevant laws and regulations in the PRC to conduct businesses in the beauty and healthcare services industry. Through the New Contractual Arrangements, the Target Company will have effective control over the finance and operations of the Restricted Medical Institutions and will enjoy the entire economic interests and benefits generated by the Restricted Medical Institutions despite the lack of 30% of the registered equity ownership;

(iii) the New Contractual Arrangements are fundamental and vital for the Group, upon Completion, to obtain control over and receive economic benefits generated by the businesses of the Restricted Medical Institutions. Hence, a longer term (i.e. over three years) would reduce the uncertainties in renewing the New Contractual Arrangements and allow the Group to streamline the process and reduce the relevant administrative burden and costs in complying with the relevant laws and requirements.

The Independent Financial Adviser also notes from the Group's annual report for the year ended December 31, 2023 and the prospectus dated December 30, 2022 that the Group has similar contractual arrangements in place, with indefinite terms; and

(iv) in assessing whether it is a normal business practice for the New Contractual Arrangements of similar nature to have a term of such duration, the Independent Financial Adviser has, on a best effort basis, conducted a comparable analysis with selection criteria being companies which (i) are listed on the Stock Exchange and their contractual arrangements constitute continuing connected transactions under the Listing Rules, with details disclosed in the respective prospectus and/or announcement during the period from June 2021 to the date of the New Contractual Arrangements (being a period of approximately three years); (ii) conduct similar business as the Group and the Target Company, being the provision of beauty and healthcare services predominantly in the PRC; and (iii) are of comparable size to the Group with market capitalisation ranging from HK$1.8 billion to HK$7.5 billion (being half and two times of the Group's market capitalisation as at the last business day prior to the date of the New Contractual Arrangements of approximately HK$3.7 billion) (the "**Comparable Contractual Arrangements**"). Based on the above criteria, the Independent Financial Adviser has identified four Comparable Contractual Arrangements[1], which are exhaustive according to the above selection criteria. The Independent Financial Adviser considers that the Comparable Contractual Arrangements to be an appropriate reference for reflecting the prevailing general market practices of contractual arrangements.

Based on the Independent Financial Adviser's review, all of the four Comparable Contractual Arrangements have terms which are infinite until termination, or are infinite in practice. As such, the New Contractual Arrangements, without a fixed term, are in-line with the normal business practice for transactions of this nature.

Conditions to the New Contractual Arrangements Waiver

In view of the above, the Company has applied for, and the Stock Exchange has granted the New Contractual Arrangements Waiver, subject to the following conditions:

a. **No change without independent non-executive Directors' approval.** No change to the New 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.

1 Chaoju Eye Care Holdings Limited (stock code: 2219), Arrail Group Limited (stock code: 6639), Medlive Technology Co Ltd (stock code: 2192) and Yunkang Group Ltd. (stock code: 2325)

b. **No change without independent Shareholders' approval.** Save as described in "(d) Renewal and reproduction" below, no change to the agreements constituting the New Contractual Arrangements will be made without the approval of the 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 the Company (as set out in "(e) Ongoing reporting and approvals" below) will however continue to be applicable.

c. **Economic benefits flexibility.** The New Contractual Arrangements shall continue to enable the Group to receive the entire economic benefits derived by the medical institutions and Shanghai Liernuo through (i) the 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 the Group, such that no annual cap shall be set on the amount of service fees payable to the Target Company by Shanghai Liernuo under the Exclusive Operation Services 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.

d. **Renewal and reproduction.** On the basis that the New Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the 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 the 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 the Group which the Group may establish will, upon renewal and/or reproduction of the New Contractual Arrangements, however be treated as connected persons of the Company and transactions between these connected persons and the 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.** The 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 the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.

   ii. The independent non-executive Directors will review the New Contractual Arrangements annually and confirm in the 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 New 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 Yang which are not otherwise subsequently assigned or transferred to the Group, and (iii) any new contracts entered into, renewed or reproduced between the Group and Shanghai Liernuo during the relevant financial period under sub-paragraph (iii) above are fair and reasonable, or advantageous to the shareholders of the Company, so far as the Group is concerned and in the interests of the Company and the shareholders of the Company as a whole.

   iii. The Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the New Contractual Arrangements and will provide a letter to the Directors confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the New 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 Yang which are not otherwise subsequently assigned or transferred to the 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 the Company's wholly-owned subsidiary, and at the same time, the directors, chief executive officers or substantial shareholders of Shanghai Liernuo (where applicable) and its respective associates will be treated as connected persons of the Company, and transactions between these connected persons and the Group (including for this purpose, the medical institutions), other than those under the New 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 of the Company are listed on the Stock Exchange, Shanghai Liernuo will provide the Group's management and the Company's auditors full access to its relevant records for the purpose of the Company's auditors' review of the connected transactions.

Risks and Limitations Relating to the New Contractual Arrangements

(1) Loss sharing and Economic Risks of the Company

In the event that the Restricted Medical Institutions incur any loss or encounters any operational crisis, the Target Company may, but is not obliged to, provide financial support to the Restricted Medical Institutions.

None of the agreements constituting the New Contractual Arrangements provide that the Company or the Target Company, being our PRC subsidiary upon completion of the Acquisition is obligated to share the losses of the Restricted Medical Institutions or provide financial support to the Restricted Medical Institutions. Further, the Restricted Medical Institutions shall be solely liable for its own debts and losses with assets and properties owned by it.

Under PRC laws and regulations, the Company or the Target Company, is not expressly required to share the losses of the Restricted Medical Institutions or provide financial support to the Restricted Medical Institutions. Despite the foregoing, given that the Restricted Medical Institutions' financial condition and results of operations are consolidated into the Group's financial condition and results of operations under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the Restricted Medical Institutions suffer losses.

(2) Limitations in Exercising the Option to Acquire Ownership in the Restricted Medical Institutions

The Group may incur substantial cost on our part to exercise the option to acquire the equity interest in the Restricted Medical Institutions. Pursuant to an Exclusive Purchase Option Agreements, the Target Company or its designated purchaser has the exclusive right to purchase all or part of the equity interest in the Restricted Medical Institutions at the lowest price permitted under the PRC laws and regulations. In the event that the Target Company or its designated purchaser acquires such equity interest and the relevant PRC authorities determine that the purchase price for acquiring the equity interest is below market value, the Target Company or its designated purchaser may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

(3) The PRC government may find that the New Contractual Arrangements do not comply with applicable PRC laws and regulations

If the New Contractual Arrangements that establish the structure for operating the Group's China business are found to be in violation of any PRC laws or regulations in the future or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, would have broad discretion in dealing with such violations.

(4) Mr. Li Yang may have conflicts of interest with the Group

Mr. Li Yang may potentially have conflicts of interest with the Group and breach his contracts or undertakings with us if it would further his own interest or if they otherwise act in bad faith. In the event that such conflict of interest cannot be resolved in the Group's favor, the Group would have to rely on legal proceedings which could result in disruption to its business and the Group is subject to any uncertainty as to the outcome of such legal proceedings.

(5) The New Contractual Arrangements may not be as effective in providing control over the Restricted Medical Institutions as direct ownership

The Group has relied and expect to continue to rely on the New Contractual Arrangements to operate the majority of our medical beauty business in the PRC. The New Contractual Arrangements may not be as effective in providing us with control over the Restricted Medical Institutions as direct ownership of equity interest ownership. If he parties under such New Contractual Arrangements refuse to carry out our directions in relation to everyday business operations, we will be unable to maintain effective control over the operations of the Restricted Medical Institutions. If the Group were to lose effective control over the Restricted Medical Institutions, certain negative consequences would result, including the Company being unable to consolidate the financial results of the Restricted Medical Institutions with its financial results.

(6) The New Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional tax may be imposed

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The Company could face material and adverse tax consequences if the PRC tax authorities determine that the exclusive operation services agreement the Target Company have with Shanghai Liernuo and Restricted Medical Institutions does not represent an arm's length price and adjust any of those entities' income in the form of a transfer pricing adjustment. In addition, PRC tax authorities may have reason to believe that the Target Company or the Restricted Medical Institutions are dodging their tax obligations, and we may not be able to rectify such incident within the limited timeline required by PRC tax authorities. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for under-paid taxes, which could materially and adversely affect our business, financial condition and results of operations.

(7) The Company does not have any insurance which covers the risks relating to the New Contractual Arrangements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the New Contractual Arrangements and the transactions contemplated thereunder, and the Group has no intention to purchase any new insurance in this regard. If any risk arises from the New Contractual Arrangements in the future, such as those affecting the enforceability of the New Contractual Arrangements and the relevant agreements for the transactions contemplated thereunder and the operation of the Group, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, there are relevant internal control measures to reduce the operational risk.

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

Hong Kong, June 13, 2024

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