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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)

DISCLOSEABLE TRANSACTION ACQUISITION OF EQUITY INTEREST IN THE TARGET COMPANY

Financial Advisor



THE ACQUISITION

The Board is pleased to announce that on March 26, 2024 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Investment Agreement pursuant to which, among others, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Target Equity, representing 70% of the entire equity interest of the Target Company at a consideration of RMB350.0 million (equivalent to approximately HK\$385.9 million).

The Vendor's current primary business is operation of the Naturade brand. Naturade is the second-largest provider of traditional beauty services in China, as measured by revenue in 2021¹. The transaction involves a total of 80 beauty and wellness service stores, 6 aesthetic medical clinics (one of which also operates the subhealth medical business) and 2 Chinese medicine outpatient clinics. The abovementioned stores are primarily located in the Guangzhou and Shenzhen regions. Upon Completion, the Target Company will own the Naturade brand, as well as directly operating the abovementioned stores. Based on the pro-forma unaudited financial information of the Target Company, its revenue and net profit for the year ended December 31, 2023 is approximately RMB514.4 million and RMB33.4 million, respectively. The Acquisition will enrich the revenue and profit of the Company and significantly increase its market share. Under the Unique Tri-Beauty Business Model, the Acquisition will provide new momentum for the Group's long-term growth.

Note 1: According to the Frost & Sullivan Industry Report

Upon incorporation and prior to Completion, the Target Company is wholly owned by the Vendor. Upon Completion, the Target Company will be owned as to 70% and 30% by the Purchaser and the Vendor respectively, and will become an indirect non-wholly owned subsidiary of the Company. The results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 5% but are all less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Given the valuation of the Target Group was based on the income approach, the valuation constitutes a profit forecast solely under Rule 14.61 of the Listing Rules. Further announcement in relation to the information required under Rule 14.60A of the Hong Kong Listing Rules will be made by the Company within 15 business days after publication of this announcement in compliance with Rule 14.60A of the Listing Rules.

BACKGROUND

The Board is pleased to announce that on March 26, 2024 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Investment Agreement pursuant to which, among others, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Target Equity, representing 70% of the entire equity interest of the Target Company at a consideration of RMB350.0 million (equivalent to approximately HK\$385.9 million). The Vendor's current primary business is operation of the Naturade brand. The transaction involves a total of 80 beauty and wellness service stores, 6 aesthetic medical clinics (one of which also operates the subhealth medical business) and 2 Chinese medicine outpatient clinics. The abovementioned stores are primarily located in the Guangzhou and Shenzhen regions. Upon Completion, the Target Company will own the Naturade brand, as well as directly operating the abovementioned stores. Based on the pro-forma unaudited financial information of the Target Company, its revenue and net profit for the year ended December 31, 2023 is approximately RMB514.4 million and RMB33.4 million, respectively.

Upon incorporation and prior to Completion, the Target Company is wholly owned by the Vendor. Upon Completion, the Target Company will be owned as to 70% and 30% by the Purchaser and the Vendor respectively, and will become an indirect non-wholly owned subsidiary of the Company. The results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group.

INFORMATION ON THE PARTIES

The Company is a leading beauty and health service brand in China. We are committed to providing high-quality beauty and wellness services, aesthetic medical services as well as sub-health medical services that are personalized to clients' desire. The Purchaser is an investment holding company indirectly wholly-owned by the Company.

The Vendor currently owns and operates the Naturade brand, which was established in 2007 and is a leading AI-powered beauty and healthcare brand in the PRC. Naturade is rooted in traditional Chinese medicine culture, advocating Eastern beauty and wellness concepts while integrating state-of-the-art intelligent technologies to offer women a one-stop platform for beauty, wellness, and pain management services. The Naturade brand has deep roots in the Greater Bay Area, with business spanning beauty and wellness services, aesthetic medical services, subhealth medical services and Chinese medicine outpatient services.

The Target Company is a limited liability company which will be incorporated in the PRC no later than five days upon signing of the Investment Agreement pursuant to the terms of the Investment Agreement. Upon incorporation and before Completion, the Target Company will be wholly-owned by the Vendor. According to the Valuation Report, the appraised value of the Target Group was approximately RMB516.5 million (equivalent to approximately HK\$569.5 million).

The summary of the key pro-forma unaudited financial information of the Target Company and Target Assets upon completion of the Pre-Completion Reorganization for the two financial years ended December 31, 2022 and 2023, respectively is set out as follows:

| | For the year ended | |
|------------------------|---------------------------|--------------------|
| | December 31, | |
| | 2023 | 2022 |
| | (unaudited) | (unaudited) |
| | <i>RMB million</i> | <i>RMB million</i> |
| Profit before taxation | 44.5 | 7.9 |
| Net profit | 33.4 | 5.9 |

Naturade Health PRC is a wholly-owned subsidiary of the Vendor, owns and operates approximately 176 beauty services stores and Chinese medicine outpatient services primarily located in the Guangzhou, Shenzhen and other Pearl River Delta regions. The Vendor and Naturade Health PRC are ultimately owned by Naturade First Company Limited, Naturade Cooperate Company Limited, Sea Orange Company Limited and Naturade Star Company Limited as to 51.93%, 31.29%, 11.43%, 5.35%, respectively. Naturade First Company Limited is held as to 76.86% and controlled by Ms. Yao Qian. Ms. Yao Qian is also interested in approximately 10.45% of Naturade Cooperate Company Limited. Remaining interest in the other aforementioned entities are held by 34

other collaborating partners (including employees, former employees and business partners) of the Vendor. Save for Mr. Liang Guanghua, a vice president of the Vendor who has an indirect interest of approximately 11.43% in the Vendor and Naturade Health PRC, none of the other collaborating partners holds more than 10% interest in the Vendor and Naturade Health PRC.

Ms. Yao Qian has over 20 years of experience in the beauty industry and was served as the vice president of Guangdong Beauty and Cosmetic Association. From 2001 to 2007, she was served as the general manager of Guangzhou Naturade Product Sales Co. Ltd. Since 2007, she has been the chairlady and general manager of Naturade Health Technology Co., Ltd. (PRC)*. Ms. Yao Qian holds a Master's degree in Chinese from Shaanxi Normal University.

To the best of the knowledge, information and belief of the Directors, prior to the Acquisition, the Vendor, Naturade Health PRC and their ultimate beneficial owners (including Ms. Yao Qian) are independent third parties.

THE ACQUISITION

The principal terms of the Investment Agreement in relation to the Acquisition are set out as follows:

| | |
|--|--|
| Date | : March 26, 2024 (after trading hours of the Stock Exchange) |
| Parties | : (i) the Purchaser; (ii) the Vendor; (iii) Naturade Health PRC; and (iv) Ms. Yao |
| Subject matter of the Acquisition | : The Target Equity, representing 70% of the entire equity interest of the Target Company |
| Consideration | : RMB350.0 million (equivalent to approximately HK\$385.9 million) |

Basis of consideration : The consideration was determined through arm's length negotiations among the parties to the Investment Agreement with reference to the appraised value of the Target Group of approximately RMB516.5 million (equivalent to approximately HK\$569.5 million) as at the Valuation Benchmark Date according to the Valuation Report as appraised by the Valuer, the reputation, market position and historical performance of the Naturade brand, the growth potential and profitability of the Target Company after the Acquisition, and other factors set out in "Reasons for and Benefits of the Acquisition" below.

Payment terms : The Consideration shall be paid by the Purchaser by cash in three installments as follows:

First phase payment:

30% of the Consideration, namely RMB105.0 million, shall be paid within 10 working days after the conditions precedent for payment of the first phase payment are fulfilled, major conditions include:

- (i) all the signing parties having obtained all necessary internal authorizations;
- (ii) the share transfer having been completed and filed with the relevant authorities;
- (iii) the Target Company having completed implementation of the transition plans;
- (iv) the Target Company's articles of association having been revised as well as other confirmatory conditions being fulfilled.

The Vendor and the Target Company shall use their best endeavor to procure completion of all such conditions within 30 days of the signing of the Investment Agreement.

Second phase payment:

45% of the Consideration, namely RMB157.5 million, shall be paid within 10 working days after the conditions precedent for payment of the second phase payment are fulfilled, major conditions include:

- (i) the Target Company achieving a net profit of over RMB20.0 million for the six months ending June 30, 2024 based on its financial statement prepared in accordance with the PRC generally accepted accounting practices (PRC GAAP);
- (ii) the implementation of Pre-Completion Reorganization and long term leases agreement for existing facilities occupied by stores operated by the Target Group;
- (iii) the obtainment of certain business qualifications by the Target Company as well as other confirmation conditions.

The Vendor and the Target Company shall use their best endeavor to procure completion of all such conditions on or before July 15, 2024.

Third phase payment:

25% of the Consideration, namely RMB87.5 million, shall be paid after the conditions precedent for payment of the third phase payment are fulfilled, major conditions include:

- (i) the Target Company achieving a net profit of over RMB50.0 million for the year ending December 31, 2024 based on its financial statement prepared in accordance with the PRC GAAP;
- (ii) other confirmatory conditions being fulfilled.

The Vendor and the Target Company shall use their best endeavor to procure completion of all such conditions. On the premise of completing the conditions for the third phase payment, the third phase payment will be paid within 6 months after the Completion date.

The Consideration for the Acquisition will be funded by the internal resources and bank facilities available to the Group.

**Pre-Completion
Reorganization**

- : The Vendor has agreed to effect and implement certain steps to facilitate the Acquisition, such steps include a reorganization of the Target Assets which shall all be assigned to the Target Company prior to Completion (the “**Pre-Completion Reorganization**”).

As part of the Pre-Completion Reorganization, the Group will be acquiring interest in 8 medical institutions which are subject to foreign ownership restrictions under 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)). In order to effect these transfers, the Group will reproduce the Contractual Arrangement and control 30% of the equity interest in such restricted medical institutions through Shanghai Liernuo and by reproducing the Contractual Arrangement on substantially the same terms and conditions as the existing Contractual Arrangement.

Completion

- : Completion of the Acquisition (“**Completion**”) will be deemed to have occurred upon the Purchaser’s payment of the second phase payment, and is subject to certain other typical conditions precedent for similar transactions, such as the completion of internal approval procedures, signing of the documents relating to the aforementioned Pre-Completion Reorganization and the transaction documents, completion of the approvals, registrations, or filings involved in this transaction, among others.

Franchising arrangement : The parties agree that upon Completion, the Purchaser and Vendor may agree to permit the Vendor and its affiliates to continue operating certain stores that are not subject to the Acquisition under a franchising arrangement. The terms and conditions of the arrangement shall be subject to separate franchising agreement between the Vendor (or its affiliates) and the Target Company. Such transactions, if entered into with associates of the Vendor (who is expected to become a substantial shareholder of the Company's subsidiary upon Completion), may qualify as a continuing connected transaction. The Company will assess the Listing Rules implications and comply with the requirements under Chapter 14A of the Listing Rules in any such franchising arrangement (where applicable).

Termination : The parties may proceed to terminate the Investment Agreement (i) by mutual agreement; (ii) by the Purchaser in the event that the conditions to payment of any phase of the Consideration is not fulfilled within the stipulated timeframe (and applicable grace period) and not having been waived, upon which all amount previously paid to the Vendor must be refunded to the Purchaser; (iii) by a non-breaching party where there is a breach of specific matters stipulated in the Investment Agreement by the other party (which is not rectified within 10 business days of the breach); or (iv) by either party upon the occurrence of any force majeure events. In the event that termination arises from (ii) above and any installment has already been paid to the Vendor, the Vendor shall refund all amount paid (including accrued interest based on the Purchaser's cost of funds) in accordance with the Investment Agreement, and the Purchaser shall provide necessary assistance with reverting the Target Equity to the Vendor.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Beauty Farm has been a force in China's beauty and healthcare services industry for over 30 years. The Group has persistently expanded its business scale through organic growth and strategic acquisitions and possesses rich experience in industry acquisitions and integration. Since 2014, the Group has consistently explored integration opportunities and has successfully completed over 20 acquisitions in the beauty and wellness industry. Meanwhile, the Group has extensive experience in chain enterprise management, digital transformation, customer management and product innovation, which will empower the operation and management of the Target Company. The acquisition of the Naturade brand represents a major step in the Group's external growth, expanding both its store network and membership base. By capitalizing on the advantages of the Group's Unique Tri-Beauty Business Model, the Acquisition will further enhance the Group's revenue and contribute to the Group's beauty and health ecosystem, helping the Group better meet its customers' full-lifecycle beauty needs.

The Company considers that benefits for the Acquisition include:

1. **Solidify and increase market share of the beauty and wellness industry:** According to the Frost & Sullivan Industry Report, the Beauty Farm and Naturade brands are the largest and second-largest providers of traditional beauty services in China, respectively, as measured by revenue in 2021. Upon Completion, the Group's beauty and wellness industry market share is expected to increase significantly. The Acquisition will also enhance the Group's market influence and competitiveness, further consolidating its leading position in the industry.
2. **Increase the Group's profitability through expansion of membership base and Unique Tri-Beauty Business Model synergies:** The Group's continuously expanding active membership base is the foundation of its success. Upon Completion, the number of the Group's active members will grow significantly, enriching the Group's membership assets substantially. Going forward, the Group will apply its Unique Tri-Beauty Business Model to provide beauty and health management services covering the full-lifecycle of the customers to this enlarged member base, thereby further expanding the Group's revenue and profit scale. In 2023, the Target Assets achieved revenue of RMB514.4 million and net profit of RMB33.4 million.
3. **Realizing the coverage of the Greater Bay Area to extend regional advantages:** Rooted in China's most important metropolitan areas, the Group has constructed leading regional influence and competitive barriers in 23 directly-operated cities, including Shanghai and Beijing. The Naturade brand has deep roots in the Greater Bay Area, particularly in Guangzhou and Shenzhen. Upon Completion, the Group's number of direct stores in Guangzhou and Shenzhen will increase by 88 stores, expanding the Group's advantageous regional reach within two major cities in the Greater Bay Area and realising the Group's important layout of Unique Tri-Beauty Business Model in the Greater Bay Area.

4. **Brings complementary products and services covering customers' full-lifecycle beauty and wellness needs:** Naturade's products and services are grounded in traditional Chinese medicine and Eastern beauty and healthcare concepts, featuring a series of industry-leading intelligent healthcare services tailored to Chinese women's physiques and preferences. Its services will complement those offered by the Group under our Beauty Farm brand, empowering the Group to more comprehensively meet increasingly sophisticated consumer demands and changing market trends.
5. **Capitalizes on the Group's rich experience in acquisition and integration to amplify scale effects:** The Group has successfully completed over 20 acquisitions in the beauty and wellness industry since 2014 with extensive integration experience. Upon Completion, the Group will leverage its industry-leading position to achieve economies of scale, explore opportunities for value chain resource integration, and boost its negotiating power across the supply chain. At the same time, the increase in revenue will dilute the Group's middle and back office costs, which will further enhance returns for its shareholders.

The terms of the Investment Agreement were determined after arm's length negotiations between the parties thereto and on normal commercial terms. The Directors are of the view that the terms of the Investment Agreement and the entering into the Acquisition are fair and reasonable, and it is in the interests of the Company and the Shareholders as a whole.

FINANCIAL IMPACT OF THE ACQUISITION

Upon Completion, the Target Company will become an indirect non-wholly owned subsidiary of the Company and accordingly, all the assets, operating performance and the financial position of the Target Company will be consolidated into the consolidated financial statements of the Group. The actual effect of the Acquisition on the consolidated financial statements of the Group is to be determined as at Completion and subject to audit.

BASIS FOR THE CONSIDERATION

The consideration for the Acquisition is RMB350.0 million. The consideration was determined after arm's length negotiations among the parties to the Investment Agreement having considered, among others:

- (i) The appraised value of the Target Group of approximately RMB516.5 million (equivalent to approximately HK\$569.5 million) as at the Valuation Benchmark Date according to the Valuation Report as appraised by the Valuer;
- (ii) the reputation, market position and historical performance of the Naturade brand;

- (iii) the growth potential and profitability of the Target Company after the Acquisition;
and
- (iv) other factors set out in “Reasons for and Benefits of the Acquisition” above.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 5% but are all less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Given the valuation of the Target Group was based on the income approach, the valuation constitutes a profit forecast solely under Rule 14.61 of the Listing Rules. Further announcement in relation to the information required under Rule 14.60A of the Hong Kong Listing Rules will be made by the Company within 15 business days after publication of this announcement in compliance with Rule 14.60A of the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, the following terms used herein have the following meanings:

- “Acquisition” the Purchaser’s proposed acquisition of the Target Equity from the Vendor in accordance with the Investment Agreement;
- “Board” the board of directors of the Company;
- “Company”, “our Company” or “Beauty Farm” Beauty Farm Medical and Health Industry Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 10, 2022;
- “Completion” has the meaning as set out in the subsection headed “Completion” of this announcement;
- “connected person” has the meaning ascribed to it under the Listing Rules;
- “Consideration” RMB350.0 million (equivalent to approximately HK\$385.9 million), representing the consideration pursuant to the Investment Agreement;

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| “Contractual Arrangement” | the contractual arrangement in relation to operation of medical institutions with restriction on foreign investment (as well as the renewal and reproduction of the contractual arrangement for existing or new foreign invested enterprise or operating companies engaging in the same business) as detailed in the prospectus of the Company dated December 30, 2022, pursuant to which 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; (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; |
| “Director(s)” | the director(s) of the Company; |
| “Frost & Sullivan Industry Report” | The industry report commissioned by the Company and prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the summary of which were set forth in the prospectus of the Company dated December 30, 2022; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China; |
| “Investment Agreement” | the investment agreement dated March 26, 2024 entered into between the Purchaser; the Vendor; Naturade Health PRC; and Ms. Yao Qian in relation to the proposed sale and purchase of the Target Equity; |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| “Ms. Yao” | Ms. Yao Qian (姚倩), the ultimate beneficial owner of Naturade Health PRC and the Vendor; |
| “Naturade Health PRC” | Naturade Health Technology Co., Ltd. (PRC)* (奈瑞兒健康科技有限公司), a company with limited liability incorporated under the laws of the PRC on May 24, 2007; |

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| “PRC” | the People’s Republic of China; |
| “Pre-Completion Reorganization” | Certain steps of reorganization to be undertaken by the Vendor, Naturade Health PRC and the Target Company prior to Completion as set out in the subsection headed “Pre-Completion Reorganization” of this announcement; |
| “Purchaser” | Guangzhou Beauty Farm Healthy Research Co., Ltd. (廣州美麗田園健康研究有限公司), a company incorporated in the PRC with limited liability on March 13, 2024 and a wholly-owned subsidiary of the Company engaged in investment holding; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “Shanghai Liernuo” | Shanghai Liernuo Industry Development Co., Ltd. (上海麗爾諾實業發展有限公司), a company incorporated in the PRC with limited liability on January 21, 2022 and a subsidiary of the Group which is controlled through the Contractual Arrangement; |
| “Share(s)” | the share(s) of the Company; |
| “Shareholder(s)” | holder(s) of the shares of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Subsidiary(ies)” | has the meaning ascribed thereto in the Listing Rules; |
| “Target Assets” | the assets subject to the Acquisition and which are to be transferred into the Target Company prior to Completion pursuant to the Pre-Completion Reorganization, including the Naturade brand, 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, etc.; |
| “Target Company” | a limited liability company to be incorporated in the PRC no later than five days upon the signing of the Investment Agreement pursuant to the terms of the Investment Agreement tentatively named Guangzhou Naturade Health Consulting Co., Ltd. (廣州奈瑞兒健康諮詢有限公司); |
| “Target Equity” | RMB1.4 million in the registered capital of the Target Company (representing 70% of the Target Company’s registered capital); |
| “Target Group” | the Target Company and its subsidiaries; |

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|------------------------------------|---|
| “Unique Tri-Beauty Business Model” | a unique business model of Beauty Farm which is able to provide cornerstone beauty and wellness services, aesthetic medical services and subhealth medical services to meet its customers’ demands; |
| “Valuation” | the valuation of the Target Group as set out in the Valuation Report; |
| “Valuation Benchmark Date” | December 31, 2023, being the effective date of the Valuation Report pursuant to which the Valuation was based; |
| “Valuation Report” | the asset valuation report in respect of the appraised value of the Target Group as at the Valuation Benchmark Date issued by the Valuer; |
| “Valuer” | Shanghai Orient Appraisal Co., Ltd., an independent third-party valuer appointed by the Purchaser; |
| “Vendor” | Naturade Health Technology Company Limited (奈瑞兒健康科技有限公司), a company incorporated in Hong Kong with limited liability on February 26, 2020; |
| “%” | per cent. |

For the purpose of this announcement, the exchange rate of HK\$1.00 to RMB0.90696 has been used for currency translation, where applicable. Such conversion is for illustrative purposes and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at this or any other rate.

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

Hong Kong, March 26, 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.

* *For identification purposes only*