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Raily Aesthetic Medicine International Holdings Limited

瑞麗醫美國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2135)

PROFIT WARNING AND PROFIT GUARANTEE

This announcement is made by Raily Aesthetic Medicine International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “**SFO**”), Rule 14.36 and Rule 14.36B of the Listing Rules.

PROFIT WARNING

The board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to inform the shareholders of the Company and potential investors that, based on the preliminary assessment of the unaudited consolidated management accounts of the Group for the year ended 31 December 2022 (the “**Unaudited Management Accounts**”) and the information currently available to the Board:

1. the Board expects the Group to record a revenue of approximately RMB165 million for the year ended 31 December 2022 (2021: revenue of approximately RMB188 million); and
2. the Board expects the Group to record a loss attributable to owners of the parent of approximately RMB16 million for the year ended 31 December 2022 (2021: loss of approximately RMB18 million).

The Board considers that the decrease in revenue and the continued loss are mainly attributable to the following:

- (a) in the last month of the year, the business of medical institutions in Zhejiang and Anhui regions was affected by the widespread outbreak of the COVID-19 pandemic, resulting in the difficulty of customers in visiting the Group's institutions, and the medical institution business of the Group had been suspended for nearly one month, which affected the Group's results in the fourth quarter;
- (b) the profit guarantee in relation to Shenzhen Jumei Xinhe Medical Equipment Co., Ltd. has not been fulfilled, details of which are set out in the section headed “Profit Guarantee” below;
- (c) in order to accelerate the Group’s research and development and production of new materials for medical equipment, the Group increased its investment in the research and development activities of Suzhou Yonglan Biosciences Co., Ltd.* (蘇州詠藍生物醫藥科技有限公司) (“**Suzhou Yonglan**”), an indirect non wholly-owned subsidiary of the Company. For the year ended 31 December 2022, research and development expenses, factory design expenses and research and development personnel’s remuneration expenses of Suzhou Yonglan amounted to approximately RMB6 million. Such increase in expenses had not yet been recovered by the economic benefits to be derived therefrom during the year; and
- (d) Due to the impact of the COVID-19 pandemic, the number of customers visiting Hangzhou Beilifeier Aesthetic Medicine Outpatient Co., Ltd.* (杭州貝麗菲爾醫療美容門診部有限公司) (“**Hangzhou Beilifeier**”), an indirect wholly-owned subsidiary of the Company, had decreased significantly during the year. The management of the Group expected that the future customer flow of Hangzhou Beilifeier could not be fully restored. After careful consideration, the management of the Group made a decision on impairment of goodwill of Hangzhou Beilifeier in the amount of approximately RMB6 million.

The information relating to profit warning and annual results of the Group contained in this announcement is only based on the preliminary assessment by the Company’s management according to the Unaudited Management Accounts and with reference to the information currently available, which have not been finalised or independently reviewed by the auditors of the Group or the audit committee of the Company, and are subject to amendments and adjustments where necessary. Shareholders of the Company and potential investors should refer to and review the annual results of the Company for the year ended 31 December 2022, which are expected to be published in March 2023.

PROFIT GUARANTEE

Reference is made to the discloseable and share transaction announcement of the Company dated 20 August 2021 in relation to the acquisition of 90% equity interest in Shenzhen Jumei Xinhe Medical Equipment Co., Ltd.* (深圳市九美信禾醫療器械有限公司) (the “**Target Company**”) (the “**Announcement**”) and the supplemental announcement of the Company dated 25 August 2021 in relation to the same matter. Unless otherwise specified, all capitalised terms used herein shall have the same meanings as those defined in the Announcement.

Requirements of the Profit Guarantee

As disclosed in the Announcement, the Vendors had offered guarantees to the Purchaser that the Actual Net Profit of the Target Company for each of the year ending 31 December 2022, 2023 and 2024 shall not be less than the following Guaranteed Net Profit:

Relevant Period(s)	Guaranteed Net Profit (RMB) for the Relevant Period(s)
1st Relevant Period	8,000,000
2nd Relevant Period	11,000,000
3rd Relevant Period	14,500,000
The Relevant Periods	33,500,000

If the Actual Net Profit for each of the Relevant Periods is lower than the Guaranteed Net Profit for that Relevant Period, the Consideration will be adjusted in accordance with the following formula (the “**Adjustment Mechanism**”):

$$\frac{\text{Actual Net Profit for the Relevant Period}}{\text{Guaranteed Net Profit for the Relevant Period}} \times \text{Consideration payable for the Relevant Period}$$

Financial performance of the Target Company

Based on the unaudited financial statements of the Target Company for the year ended 31 December 2022 currently available to the Company, the Actual Net Profit of the Target Company (subject to audit) for the year ended 31 December 2022 is expected to be lower than the Guaranteed Net Profit for the 1st Relevant Period by approximately RMB5 million (the “**Shortfall**”). Based on the above, the Board is of the view that the Vendors are expected to breach the Profit Guarantee for the 1st Relevant Period.

Reasons for the expected Shortfall

The Board has engaged in communication with the Vendors and understands that the expected breach of the Profit Guarantee was primarily attributable to COVID-19 which has impacted the PRC economy. In particular, under the pandemic, the Target Company had faced difficulties in meeting the Profit Guarantee for 2022 due to the following reasons:

- (a) the continual threat and resurgence of COVID-19 and the resulting preventive measures (such as lockdowns, quarantines and travel restrictions) imposed in the PRC during 2022 had led to material impediments to the sales activities of the Target Company, such as delays in product delivery and difficulties for sales personnel to meet and follow up with sales leads with a view to securing new orders; and
- (b) as the majority of the Target Company’s customers are located in the PRC, the aforesaid preventive measures in the PRC which may have the same impact on the business of these customers (including aesthetic medical institutions) also affected the demand for and thus sales of the products provided by the Target Company.

Supplemental agreement in relation to extension of Profit Guarantee period

Given that the reasons for the Shortfall were mainly attributable to the extraordinary and unexpected circumstances caused by COVID-19 which were beyond the control of the Vendors, and in view of the business prospect of the Target Company in light of the gradual relaxation of restrictive COVID-19 measures, the Group and the Vendors (who have remained in the core management team of the Target Company) have agreed that the Target Company may fulfill the outstanding Profit Guarantee requirement within a period of three months and the Board is of the view that there is no material adverse impact on the Group arising from the extension of the Profit Guarantee period for three months. Accordingly, the Company and the Vendors have entered into an agreement supplemental to the SP Agreement (the “**Supplemental Agreement**”) on 10 March 2023 to extend the Profit Guarantee period (the “**Extension**”):

	Original period under the SP Agreement	Extended period under the Supplemental Agreement
1st Relevant Period	1/1/2022 to 31/12/2022	1/1/2022 to 31/3/2023
2nd Relevant Period	1/1/2023 to 31/12/2023	1/4/2023 to 31/3/2024
3rd Relevant Period	1/1/2024 to 31/12/2024	1/4/2024 to 31/3/2025
The Relevant Periods	1/1/2022 to 31/12/2024	1/1/2022 to 31/3/2025

The payment schedule of Post-Completion Considerations will therefore be deferred accordingly and thus no adjustment thereof in accordance with the Adjustment Mechanism has yet been made.

In the event the Actual Net Profit of the Target Company for any of the extended Relevant Periods still fails to meet the Guaranteed Net Profit for that extended Relevant Period, the relevant Post-Completion Consideration may be adjusted in accordance with the Adjustment Mechanism.

Reasons for the Extension

Considering (i) that the reasons for the Shortfall were mainly attributable to the extraordinary and unexpected circumstances caused by COVID-19 which were beyond the control of the Vendors; (ii) the business prospect of the Target Company in light of the gradual relaxation of restrictive COVID-19 measures; (iii) that the Extension can serve as an incentive for the Vendors, who have remained in the core management team of the Target Company, to commit more time and effort to improving the performance of the Target Company; (iv) the relatively short period of Extension of three months which is not expected to materially affect the business development of the Group’s aesthetic medical equipment product sales; and (v) that the obligation of the Group to pay the Post-Completion Considerations will also be deferred accordingly and still subject to fulfillment of the same amount of guaranteed profit and the Adjustment Mechanism, the Board considers that the Extension and the decision not to exercise the Adjustment Mechanism for now are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole. The Board will constantly review the performance of the Target Company and take appropriate actions as and when necessary.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in shares of the Company.

By Order of the Board
Raily Aesthetic Medicine International Holdings Limited
FU Haishu
Chairman and Executive Director

Hangzhou, the PRC, 10 March 2023

As at the date of this announcement, the Board comprises Mr. Fu Haishu, Mr. Song Jianliang and Mr. Wang Ying as Executive Directors; and Mr. Cao Dequan, Ms. Yang Xiaofen and Mr. Liu Teng as Independent Non-executive Directors.

* *For identification purpose only*