

MARKET RELEASE**COURT APPROVES CONVENING OF SCHEME MEETING AND
DISTRIBUTION OF SCHEME BOOKLET
INDEPENDENT EXPERT CONCLUDES THE SCHEME IS IN THE BEST
INTERESTS OF SILK SHAREHOLDERS**

Adelaide, South Australia: 4 October 2023: SILK Laser Australia Limited (ASX:SLA) (**SILK**) refers to the proposed acquisition by Australian Pharmaceutical Industries Pty Ltd (**API**), a wholly-owned subsidiary of Wesfarmers Limited, of 100% of the shares in SILK for cash consideration of \$3.35 per SILK share, less the cash amount of any special dividend declared and paid by the SILK Board, by way of a scheme of arrangement (**Scheme**).

Court Orders

The Federal Court of Australia has today made the following orders in relation to the Scheme:

- that SILK convene a meeting of SILK shareholders to consider and vote on the Scheme (**Scheme Meeting**); and
- approving the distribution of an explanatory statement providing information about the Scheme and the notice of scheme meeting (**Scheme Booklet**) to SILK shareholders.

Details of Scheme Meeting

The Scheme meeting will be held at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000 on Friday, 10 November 2023 at 10.30am Sydney time (10.00am Adelaide time).

All registered SILK shareholders as at 7:00pm Sydney time (6.30pm Adelaide time) on Wednesday, 8 November 2023 will be eligible to vote at the Scheme Meeting.

All SILK shareholders are encouraged to vote by attending the Scheme Meeting in person or by attorney or corporate representative, or alternatively by completing the proxy form accompanying the Scheme Booklet and ensuring the completed proxy form is received by no later than 10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023.

Scheme Booklet

The Scheme Booklet has today been registered with the Australian Securities and Investments Commission (**ASIC**). A copy of the Scheme Booklet is attached to this announcement and will also be made available online at <https://silklaser.com.au/investors/>. A copy of the proxy form that will be sent to SILK shareholders is also attached.

Further details will be sent to SILK shareholders on or before Tuesday, 10 October 2023.

The Scheme Booklet will be sent to SILK shareholders as follows:

- shareholders who have elected to receive shareholder communications from SILK electronically will receive an email containing instructions about how to view or download a copy of the Scheme Booklet, as well as instructions on how to lodge their proxies;
- shareholders who have elected to receive hard copy shareholder communications will receive by pre-paid post (if the shareholder's address in SILK's register of members is located within Australia) or pre-paid airmail (if the shareholder's address in SILK's register of members is located outside Australia) a printed copy of the Scheme Booklet, together with a personalised proxy form and reply paid envelope (if the shareholder's address in SILK's register of members is located within Australia) or a self-addressed envelope for the return of the proxy form (if the shareholder's address in SILK's register of members is located outside Australia); and
- all other shareholders will receive a letter by pre-paid post (if the shareholder's address in SILK's register of members is located within Australia) or pre-paid airmail (if the shareholder's address in SILK's register of members is located outside Australia), containing instructions about how to view or download a copy of the Scheme Booklet, together with a personalised proxy form and reply paid envelope (if the shareholder's address in SILK's register of members is located within Australia) or a self-addressed envelope for the return of the proxy form (if the shareholder's address in SILK's register of members is located outside Australia).

SILK shareholders should read the Scheme Booklet in its entirety before making a decision on whether or not to vote in favour of the Scheme.

Independent Expert's Report

The Scheme Booklet includes a copy of the Independent Expert's Report prepared by Lonergan Edwards & Associates Limited (**Independent Expert**). The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK shareholders in the absence of a superior proposal.

A complete copy of the Independent Expert's Report is included in Annexure A of the Scheme Booklet and SILK shareholders are encouraged to read it in full.

SILK Board Recommendation

The SILK Board believes that API represents a logical, long-term owner of the SILK business, with strong operational and cultural alignment, the capacity to support continued growth for SILK and its franchise partners and providing efficiencies associated with being part of a broader healthcare, wellness and beauty network.

The SILK Directors unanimously recommend that SILK shareholders vote in favour of the Scheme, in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interest of SILK shareholders.

Furthermore, each of the SILK Directors intends to vote all the SILK shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.

The interests of SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, and the other SILK Directors are disclosed in Section 9 of the Scheme Booklet. SILK Shareholders should have regard to

these interests when considering how to vote on the Scheme, including Mr Martin Perelman's recommendation on the Scheme, which appears throughout the Scheme Booklet.¹

Shareholder information line

If you have any questions in relation to the Scheme or Scheme Booklet, please contact the SILK Shareholder Information Line on 1300 429 201 (within Australia) or +61 2 7208 4523 (outside Australia) between 8.30 am and 5.00 pm (Sydney time) Monday to Friday, excluding public holidays.

—ENDS—

This announcement has been authorised for release by the Board of Directors of SILK Laser Australia Limited.

Further information:

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About SILK Laser

Founded in 2009, SILK is one of Australia's largest specialist clinic networks, offering a range of non-surgical aesthetic products and services. SILK's five core offerings comprise laser hair removal, cosmetic injectables, skin treatments, body contouring and skincare products.

Visit: www.silk laser.com.au/investors.

¹ Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2 of the Scheme Booklet. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.

SILK

LASER AUSTRALIA

Scheme Booklet

In relation to the proposed acquisition of SILK Laser Australia Limited (ACN 645 400 399) by Australian Pharmaceutical Industries Pty Ltd (ACN 000 004 320), a wholly-owned subsidiary of Wesfarmers Limited (ACN 008 984 049), by way of a scheme of arrangement.

Vote in favour

The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests, of SILK Shareholders in the absence of a superior proposal.

Your SILK Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders.

This is an important document and requires your immediate attention.

You should read it in its entirety before deciding whether or not to vote in favour of the Scheme Resolution required to implement the Scheme. If you are in any doubt about what to do, you should consult your legal, financial, taxation or other professional adviser immediately.

If you have any questions about this Scheme Booklet or the Scheme, please contact the SILK Shareholder Information Line on 1300 429 201 (within Australia) or +61 2 7208 4523 (outside Australia) between 8.30am and 5.00pm (Sydney time) Monday to Friday, excluding public holidays.

Financial adviser

HIGHBURY
PARTNERSHIP

Legal adviser

KAIN | LAWYERS
TRANSACTION SPECIALISTS

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Important Notice

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Nature of this document

This Scheme Booklet is important. SILK Shareholders should carefully read this Scheme Booklet in its entirety before deciding whether or not to vote in favour of the Scheme Resolution required to implement the Scheme.

This Scheme Booklet includes the explanatory statement for the Scheme for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included at Annexure B of this Scheme Booklet.

This Scheme Booklet explains the terms of the proposed acquisition of all of the Scheme Shares by API by way of a scheme of arrangement between SILK and SILK Shareholders under Part 5.1 of the Corporations Act.

This Scheme Booklet also sets out the manner in which the Scheme will be considered and implemented (if all of the conditions to the Scheme are satisfied or (if permitted) waived) and provides such information as is prescribed by law or is otherwise material to the decision of SILK Shareholders whether to vote in favour of the Scheme.

This Scheme Booklet does not constitute or contain an offer to SILK Shareholders, or a solicitation of an offer from SILK Shareholders, in any jurisdiction.

This Scheme Booklet is not a disclosure document required by Chapter 6D or Part 7.9 of the Corporations Act. Subsection 708(17) of the Corporations Act provides that Chapter 6D of the Corporations Act does not apply in relation to arrangements under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under subsection 411(1).

If you have sold all of your SILK Shares, please disregard this Scheme Booklet.

Responsibility for information

SILK has prepared, and is solely responsible for, the SILK Information. None of API or its Related Bodies

Corporate or their respective directors, officers, employees and advisers have verified any SILK Information and none of them assumes any responsibility for the accuracy or completeness of any SILK Information.

API has prepared, and is solely responsible for, the API Information. None of SILK or its Related Bodies Corporate, or their respective directors, officers, employees and advisers have verified any of the API Information, and none of them assumes any responsibility for the accuracy or completeness of any the API Information.

The Independent Expert, Lonergan Edwards & Associates Limited, has prepared the Independent Expert's Report contained in Annexure A of this Scheme Booklet and takes sole responsibility for that report. None of SILK, API, or their respective Related Bodies Corporate, or any of their respective directors, officers, employees or advisers takes any responsibility for the Independent Expert's Report.

SILK's tax adviser, Deloitte Tax Services Pty Ltd, has prepared Section 8 of this Scheme Booklet and takes sole responsibility for that Section. None of SILK, API, or their respective Related Bodies Corporate, or any of their respective directors, officers, employees or advisers takes any responsibility for that Section.

No consenting party as referred to in Section 9.7 has withdrawn their consent to be named before the date of this Scheme Booklet.

ASIC and ASX

A copy of this Scheme Booklet (including the Independent Expert's Report) was provided to ASIC in accordance with section 411(2) of the Corporations Act and has been registered by ASIC under section 412(6) of the Corporations Act on 4 October 2023. ASIC has been given the opportunity to comment on this Scheme Booklet in accordance with section 411(2) of the Corporations Act.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that it has no objection to the Scheme. ASIC's policy in relation to statements under section 411(17)(b) of the Corporations Act is that it will not provide such a statement until the Second Court Date. This is because ASIC will not be in a position to advise the Court until it has had an opportunity to observe the entire Scheme process. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Forward looking statements and intentions

Some of the statements appearing in this Scheme Booklet (including in the Independent Expert's Report) may be in the nature of forward-looking statements. Forward looking statements or statements of intent in relation to future events in this Scheme Booklet (including in the Independent Expert's Report) should not be taken to be forecasts or predictions that those events will occur. Forward looking statements generally may be identified by the use of forward-looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intend', 'foresee', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe the objectives, plans, goals, intentions or expectations of SILK or API are or may be forward looking statements. You should be aware that such statements are only opinions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to SILK or API and/or the industries in which they operate, as well as general economic conditions, prevailing exchange rates and interest rates and conditions in financial markets.

Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement and deviations are both normal and to be expected.

None of SILK, API, or their respective officers, directors, employees or advisers or any person named in this Scheme Booklet or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Accordingly, you are cautioned not to place undue reliance on those statements.

Any forward-looking statements in this Scheme Booklet reflect views held at the date of this Scheme Booklet, and may be subject to change. Subject to any continuing obligations under the ASX Listing Rules or the Corporations Act, SILK and API and their respective officers, directors, employees and advisers, disclaim any obligation or undertaking to distribute after the date of this Scheme Booklet any updates or revisions to any forward-looking statements to reflect (a) any change in expectations in relation to such statements; or (b) any change in events, conditions or circumstances on which any such statement is based.

Not investment advice

The information contained in this Scheme Booklet does not contain or constitute financial product advice and does not take into account the investment objectives, financial situation, taxation position or particular needs of any individual SILK Shareholder or any other person. This Scheme Booklet should not be relied on as the sole basis for any investment decision. Before making any decision (including a decision in relation to the Scheme or in relation to SILK generally), you should consider, with or without the assistance of an independent securities or other adviser, whether that decision is appropriate in light of your particular investment needs, objectives and financial circumstances. This Scheme Booklet should be read in its entirety before making a decision on whether or not to vote in favour of the Scheme. In particular, it is important that SILK Shareholders consider the risks as set out in Section 7, and the views of the Independent Expert set out in the Independent Expert's Report contained in Annexure A of this Scheme Booklet.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Scheme Booklet should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. SILK disclaims all liabilities for such violations.

SILK Shareholders who are resident outside of Australia, or who are nominees, trustees or custodians for beneficial holders resident outside Australia, are encouraged to seek independent advice as to how they should proceed (including specific taxation advice in relation to the Australian and overseas tax implications of their participation in the Scheme).

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations of jurisdictions other than Australia. The financial information included in this Scheme Booklet is based on financial statements that have been prepared in accordance with Australian Accounting Standards, which may differ from generally accepted accounting principles in other jurisdictions. No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside Australia.

Important Notice associated with Court order under section 411(1) of the Corporations Act

The fact that, under section 411(1) of the Corporations Act, the Court has ordered that the Scheme Meeting be convened, and has approved the explanatory statement required to accompany the Notice of Scheme Meeting, does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how SILK Shareholders should vote in respect of the Scheme Resolution (on this matter SILK Shareholders must reach their own decision);
- has prepared, or is responsible for the content of, the explanatory statement; or

- has approved, or will approve, the terms of the Scheme.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Notice of Scheme Meeting

The Notice of Scheme Meeting is set out in Annexure D of this Scheme Booklet.

The purpose of the Scheme Meeting is to consider and, if thought fit, agree to the Scheme (with any modifications, alterations or conditions required by the Court to which SILK and API agree or any modifications, alterations or conditions agreed in writing by SILK and API and approved by the Court) proposed to be made between SILK and SILK Shareholders and to consider and, if thought fit, pass the Scheme Resolution by the Requisite Majorities.

To enable you to make an informed voting decision, further information about the Scheme is set out in the accompanying explanatory statement (for the purposes of section 412(1) of the Corporations Act) which, together with the Notice of Scheme Meeting, forms part of this Scheme Booklet.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote on the Scheme Resolution at the Scheme Meeting.

Any SILK Shareholder may appear at the Second Court Hearing, which is expected to be held at 9.15am Sydney time (8.45am Adelaide time) on Wednesday, 15 November 2023 at the Federal Court of Australia (Level 17, Law Courts Building, 184 Phillip St, Queens Square, Sydney, NSW, 2000). The SILK Board intends to seek Court orders to provide details on how to attend the Second Court Hearing to ASX if the Scheme has been approved at the Scheme Meeting.

Any SILK Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on SILK a notice of appearance in the prescribed form, together with any affidavit on which the SILK Shareholder proposes to rely. The notice of appearance and affidavit must be served on SILK at its address for service at least one day before the Second Court Hearing.

The address for service is c/o Kain Lawyers, Level 5, 121 King William Street, Adelaide, SA, 5000.

Taxation implications of the Scheme

If the Scheme becomes Effective and is implemented, there will be taxation consequences for Scheme Shareholders which may include taxation being payable on any gain on disposal of SILK Shares. For further detail about the general Australian taxation consequences of the Scheme, refer to Section 8 of this Scheme Booklet.

The taxation treatment may vary depending on the nature and characteristics of each SILK Shareholder and the specific circumstances that apply to that SILK Shareholder. Accordingly, SILK Shareholders should seek professional taxation advice in relation to their particular circumstances.

Presentation of financial information

Section 5.6 contains financial information relating to SILK for the financial years ending 30 June 2021, 30 June 2022 and 30 June 2023. The financial information in section 5.6 is summary only and has been prepared and extracted for the purposes of this Scheme Booklet only. The information has been extracted from the audited financial reports of SILK for the financial years ended 30 June 2021, 30 June 2022 and 30 June 2023.

Privacy and personal information

SILK and API may need to collect personal information in connection with the Scheme.

The personal information may include the names, contact details and details of SILK Share holdings of SILK Shareholders, together with contact details of individuals appointed as proxies, attorneys or corporate representatives for the Scheme Meeting. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of the collection of personal information is to assist SILK to conduct the Scheme Meeting and to implement the Scheme.

This information may be disclosed to SILK, API and their respective Related Bodies Corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to effect the Scheme, and also where disclosure is otherwise required or allowed by law.

SILK Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them. SILK Shareholders may contact the Share Registry if they wish to exercise these rights.

If the information outlined above were not collected, SILK may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme. SILK Shareholders who appoint an individual as their proxy, attorney or corporate representative to vote at the applicable Scheme Meeting should inform that individual of the matters relating to their personal information which are outlined above. Further information about how SILK collects, uses and discloses personal information is contained in the SILK privacy policy which can be found on the SILK Group's website at: <https://silklaser.com.au/privacy-statement/>.

External websites

Unless expressly stated otherwise, the content of SILK's website and API's website (or Wesfarmers' website) do not form part of this Scheme Booklet and SILK Shareholders should not rely on any such content in making their decision as to whether to vote in favour of the Scheme Resolution.

Interpretation

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 10 of this Scheme Booklet, or otherwise in the Sections in which they are used. Section 10 of this Scheme Booklet also sets out rules of interpretation which apply to this Scheme Booklet. Some of the documents reproduced in the Annexures to this Scheme Booklet have their own defined terms, which are sometimes different from those in the Glossary.

Charts and diagrams

Any diagrams, charts, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in diagrams, charts, graphs and tables is based on information available at the date of this document. All numbers are rounded, unless otherwise indicated.

Rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to rounding. Accordingly, the actual calculation of figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Scheme Booklet. Any discrepancies between totals in tables or in financial information, or in calculations, graphs or charts are due to rounding.

Financial amounts and exchange

The financial amounts in this Scheme Booklet are expressed in Australian currency, unless otherwise stated. A reference to \$, A\$ or cents is to Australian currency, unless otherwise stated.

Times and dates

All times referred to in this Scheme Booklet are references to times in Sydney, Australia, unless otherwise stated.

All dates following the Scheme Meeting referred to in this Scheme Booklet are indicative only and, among other things, are subject to the satisfaction or (if permitted) waiver of the conditions precedent to the Scheme.

Date of this Scheme Booklet

This Scheme Booklet is dated Wednesday, 4 October 2023.

Important Dates and Expected Timetable for the Scheme

KEY DATES

Date of this Scheme Booklet	Wednesday, 4 October 2023
Latest time and date for receipt of completed proxy forms for Scheme Meeting	10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023
Time for determining eligibility to vote at the Scheme Meeting	7.00pm Sydney time (6.30pm Adelaide time) on Wednesday, 8 November 2023
Scheme Meeting Further details relating to the Scheme Meeting are set out in the Notice of Scheme Meeting set out at Annexure D to this Scheme Booklet	10.30am Sydney time (10.00am Adelaide time) on Friday, 10 November 2023

IF THE SCHEME RESOLUTION IS PASSED BY SILK SHAREHOLDERS

Second Court Date for approval of the Scheme	9.15am Sydney time (8.45am Adelaide time) on Wednesday, 15 November 2023
Effective Date Scheme Order lodged with ASIC and lodgement is announced on ASX Last day of trading in SILK Shares on ASX (with SILK Shares suspended from trading on ASX from close of trading)	Thursday, 16 November 2023
Special Dividend Record Date for determining entitlements to the Special Dividend (if SILK Board decides to pay a Special Dividend)	7.00pm Sydney time (6.30pm Adelaide time) on Tuesday, 21 November 2023
Scheme Record Date for determining entitlements to Scheme Consideration	7.00pm Sydney time (6.30pm Adelaide time) on Wednesday, 22 November 2023
Special Dividend Payment Date (if SILK Board decides to pay a Special Dividend)	Tuesday, 28 November 2023
Implementation Date Payment of Scheme Consideration and transfer of Scheme Shares to API	Wednesday, 29 November 2023

Unless otherwise stated, all times and dates in the above timetable are references to the time and date in Sydney, Australia. All such times and dates are indicative only and subject to change. SILK may vary any of all of these dates and times and will provide reasonable notice of any such variation. In particular, the date of the Scheme Meeting may be postponed or adjourned if satisfaction of a Condition is delayed. Any changes to the above timetable will be announced on ASX and notified on SILK's website at <https://silklaser.com.au/investors/>.

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CONTENTS

Important Notice	IFC
Important Dates and Expected Timetable for the Scheme	03
Letter from the Chair of SILK.....	05
01 Key Considerations Relevant to your Vote... ..	10
02 Frequently Asked Questions.....	17
03 Summary of the Scheme.....	30
04 What you Should do and How to Vote at the Scheme Meeting.....	40
05 Information relating to SILK.....	42
06 Information about API.....	59
07 Risk Factors.....	66
08 Taxation Implications.....	76
09 Additional Information	80
10 Glossary	97
Annexure A – Independent Expert’s Report.....	108
Annexure B – Scheme of Arrangement.....	183
Annexure C – Deed Poll	202
Annexure D – Notice of Scheme Meeting.....	231
Corporate Directory.....	IBC

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Letter from the Chair of SILK

4 October 2023

Dear SILK Shareholders,

On behalf of your SILK Directors, I am pleased to provide you with this Scheme Booklet, which contains information in relation to the proposed acquisition of SILK by API.

On 26 June 2023, SILK announced that it had entered into the Scheme Implementation Deed under which API would acquire all of the shares in SILK, by way of a scheme of arrangement (which is a commonly used legal procedure in Australia to enable one company to acquire another company) (**Scheme**), subject to the satisfaction of SILK Shareholder approval and Court approval, certain regulatory approvals and certain other Conditions.

Prior to entry into the Scheme Implementation Deed, on 19 April 2023 SILK announced that it had received a non-binding and conditional proposal from API to acquire 100% of the shares in SILK for cash consideration of \$3.15 per SILK Share, by way of a scheme of arrangement (**API Initial Proposal**). Subsequently, on 23 May 2023, SILK announced that it had received a competing, non-binding and indicative proposal from EC Healthcare to acquire 100% of the shares in SILK at an indicative offer price of \$3.35 cash per SILK Share (**EC Proposal**). Both the API Initial Proposal and the EC Proposal allowed for the payment by SILK of a fully franked dividend up to a maximum amount of \$0.10 per SILK Share, provided that if such dividend was paid then the cash component of that dividend would reduce the cash consideration under the API Initial Proposal or the EC Proposal (as applicable).

After a period of negotiation, and careful consideration by the SILK Board, the terms of a binding Scheme Implementation Deed were agreed between SILK and API, leading to the announcement of the proposed Scheme on 26 June 2023. The terms of the proposed Scheme provide that SILK Shareholders will be entitled to receive from API \$3.35 cash for each SILK Share held by them at the Scheme Record Date, less the cash amount of any Special Dividend paid by SILK on or before the Implementation Date (**Scheme Consideration**).

The SILK Board believes that API represents a logical, long-term owner of the SILK business, with strong operational and cultural alignment, the capacity to support continued growth for SILK and its franchise partners and providing efficiencies associated with being part of a broader healthcare, wellness and beauty network.

Your SILK Directors consider that the Scheme represents the best available opportunity for SILK Shareholders to realise the value of their investment in SILK, in the absence of a Superior Proposal.

TOTAL CASH VALUE

The terms of the proposed Scheme provide that SILK Shareholders will be entitled to receive from API \$3.35 cash for each SILK Share held by them at the Scheme Record Date, less the cash amount of any Special Dividend paid by SILK on or before the Implementation Date.

The SILK Board currently intends to pay a fully franked Special Dividend of up to \$0.10 per SILK Share prior to implementation of the Scheme, if the Scheme is approved by SILK Shareholders and the Court and becomes Effective. The final decision on whether or not to pay a Special Dividend will be made by the SILK Board (in its absolute discretion) and will depend upon a number of factors, including the availability of franking credits and the requirements of the Corporations Act. The decision of the SILK Board in relation to a Special Dividend will be communicated to SILK Shareholders by way of an ASX announcement before the Scheme Meeting.

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If the Scheme becomes Effective and if a Special Dividend is paid, then those SILK Shareholders who receive both the Special Dividend (payable by SILK) and the Scheme Consideration (payable by API) will, in aggregate, receive \$3.35 per SILK Share (**Total Cash Value**).

Please note that, if the Scheme is implemented and if the Special Dividend is paid, you will only receive the Total Cash Value for each of your SILK Shares provided that you hold all of those shares on both the Special Dividend Record Date (which is expected to be 7.00pm Sydney time (6.30pm Adelaide time) on Tuesday, 21 November 2023) and the Scheme Record Date (which is expected to be 7.00pm Sydney time (6.30pm Adelaide time) on Wednesday, 22 November 2023). If you become a SILK Shareholder after the Special Dividend Record Date, you will not receive the Special Dividend and you will receive the Scheme Consideration (being \$3.35 less the cash amount of the Special Dividend) for each SILK Share held by you on the Scheme Record Date. Similarly, if you cease to be a SILK Shareholder after the Special Dividend Record Date and before the Scheme Record Date then you will receive the Special Dividend but will not receive the Scheme Consideration.

If a Special Dividend is not paid, the \$3.35 cash amount per SILK Share will be paid entirely by API. In such circumstances, you will need to hold your SILK Shares on the Scheme Record Date in order to receive the \$3.35 cash amount per SILK Share.

The Total Cash Value of \$3.35 per SILK Share represents a premium over trading prices of SILK Shares on ASX prior to the announcement of the API Initial Proposal on 19 April 2023, representing a premium of:

- 38.4% to the undisturbed closing price of SILK Shares as at 19 April 2023 of \$2.42 (being the last trading day before the announcement of the API Initial Proposal);
- 65.0% to the 30-day VWAP of SILK Shares to and including 19 April 2023 of \$2.03 per SILK Share;
- 78.3% to the 60-day VWAP of SILK Shares to and including 19 April 2023 of \$1.88 per SILK Share;
- 79.0% to the 90-day VWAP of SILK Shares to and including 19 April 2023 of \$1.87 per SILK Share; and
- 6.3% to the API Initial Proposal.

The SILK Board was prepared to enter into the Scheme Implementation Deed and to recommend that SILK Shareholders vote in favour of the Scheme (in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders) because of the certainty of value represented by the Total Cash Value and because of the significant and attractive premiums that the Total Cash Value represented to the above trading prices, particularly the 30-day VWAP, 60-day VWAP and 90-day VWAP referred to above.

The Total Cash Value implies a fully diluted equity value for SILK of approximately \$180 million.¹

FRANKING CREDITS

For those Scheme Shareholders who are able to realise the full benefit of franking credits, the franking credits attached to any Special Dividend are potentially worth up to approximately \$0.0429 per SILK Share in relation to any Special Dividend of up to \$0.10 per SILK Share that the SILK Board may (in its absolute discretion) decide to pay. The Scheme Consideration will not be reduced by the value of any franking credits. Whether a Scheme Shareholder is able to obtain the full benefit of the franking credits depends on their personal tax circumstances. In assessing the value of any Special Dividend, Scheme Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances. In particular, Scheme Shareholders should note that, depending on the timing of and price at which they acquired their SILK Shares, the tax consequences for that Scheme Shareholder may differ. Refer to Section 8 of this Scheme Booklet for further details.

1. Implied fully diluted equity value derived from \$3.35 per SILK Share multiplied by 53,759,525 shares (includes 53,121,177 SILK Shares on issue and 638,348 SILK Performance Rights on issue).

SILK DIRECTORS' RECOMMENDATION

Your SILK Directors have carefully considered the Scheme, taking into account SILK's current financial performance and the factors referred to below (and explained in more detail in Sections 1.2 and 1.3 of this Scheme Booklet), and believe that the Scheme is in the best interests of SILK Shareholders (in the absence of a Superior Proposal).

Accordingly, your SILK Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.

Furthermore, each of your SILK Directors intends to vote all the SILK Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.

The interests of SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, and the other SILK Directors are disclosed in Section 9 of this Scheme Booklet. SILK Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Martin Perelman's recommendation on the Scheme, which appears throughout this Scheme Booklet.²

In reaching their recommendation, your SILK Directors had regard to a range of factors (which are explained in more detail in Section 1.2 of this Scheme Booklet) including that:

- The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.
- The Total Cash Value represents a premium relative to recent historical trading prices of SILK Shares on ASX prior to the announcement of the API Initial Proposal.
- The all cash consideration provides Scheme Shareholders with certainty of value and the opportunity to realise their investment for cash.
- Those SILK Shareholders that are eligible may receive an additional benefit from the value of franking credits attached to any Special Dividend that such SILK Shareholder has or may receive.³
- As at the Last Practicable Date, no proposal exists that the SILK Board considers to be a Superior Proposal and the SILK Board is not aware of any Superior Proposal that is likely to emerge.
- The Scheme has limited conditionality, being subject only to customary conditions (including SILK Shareholder approval, Court approval and the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders) and is not subject to any financing conditions or further due diligence. As SILK announced to the ASX on 10 August 2023, the ACCC Condition and the NZCC Condition have both been satisfied, subject to the ACCC or the NZCC (as applicable) not withdrawing, suspending or revoking its written confirmation.
- The SILK Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges.
- If the Scheme does not proceed, SILK Shareholders will continue to be exposed to risks associated with SILK's business, rather than realising certain value for their SILK Shares within a certain timeframe.

2. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.
3. In assessing the value of any Special Dividend, SILK Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances. In particular, SILK Shareholders should note that, depending on the timing of and price at which they acquired their SILK Shares, there may be differences in the tax consequences for them. Refer to Section 8 of this Scheme Booklet for further details.

In forming the view that the Scheme is in the best interests of SILK Shareholders, and in determining to unanimously recommend the Scheme to SILK Shareholders, your SILK Directors also considered the disadvantages of the Scheme proceeding, and reasons why SILK Shareholders may (in pursuit of their own individual investment objectives, or otherwise) consider voting against the Scheme; as set out in Section 1.3 of this Scheme Booklet, you may consider voting against the Scheme for the following reasons:

- You may disagree with your SILK Directors' recommendation and/or the Independent Expert's conclusion.
- You may prefer to participate in the future financial performance of SILK's business.
- You may believe it is in your best interests to maintain your current investment and risk profile.
- You may consider that there is potential for a proposal to emerge that you consider to be a superior proposal in the foreseeable future.
- The tax consequences of the Scheme may not be suitable for your circumstances.

However, your SILK Directors consider that the advantages of the Scheme proceeding for SILK Shareholders outweigh the disadvantages.

The interests of SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, and the other SILK Directors are disclosed in Section 9 of this Scheme Booklet. SILK Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Martin Perelman's recommendation on the Scheme, which appears throughout this Scheme Booklet.⁴

Further information to assist you in determining whether to vote in favour of the Scheme is set out in this Scheme Booklet, particularly in Sections 1.2 and 1.3.

INDEPENDENT EXPERT

The SILK Board appointed Lonergan Edwards & Associates Limited as the Independent Expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.

The Independent Expert has assessed the value of a SILK Share before the Scheme to be in the range of \$3.06 to \$3.44 on a 100% controlling interest basis. The Total Cash Value of \$3.35 per SILK Share falls within the Independent Expert's assessed valuation range on a 100% controlling interest basis.

A complete copy of the Independent Expert's Report is included in Annexure A of this Scheme Booklet and I encourage you to read it in full.

HOW TO VOTE

Your vote is important and will determine the future ownership of SILK. I encourage you to vote on the Scheme Resolution by attending the Scheme Meeting or by completing a proxy form.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme Resolution.

The Scheme Meeting is scheduled to be held at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000 on Friday, 10 November 2023 at 10.30am Sydney time (10.00am Adelaide time).

4. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.

We encourage you to submit a directed proxy vote as early as possible by completing and returning a proxy form by post, email or fax to the Share Registry or by lodging your proxy form online at www.investorvote.com.au, in accordance with the instructions on that form.

SILK Shareholders can lodge questions prior to the Scheme Meeting by submitting questions via contacting the Company by email to richard.willson@silkklaser.com.au or by mail addressed to Level 1, 137 The Parade, Norwood, South Australia 5067 by no later than 10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023 (48 hours before the commencement of the Scheme Meeting).

REPAYMENT OF EMPLOYEE SHARE SCHEME LOANS

Under the terms of an employee share scheme implemented prior to SILK's initial public offer, a Subsidiary in the SILK Group entered into limited recourse loan agreements with a number of employees and directors of the SILK Group, including Mr Boris Bosnich, Mr Martin Perelman and Mr Ivan Jacques.

The Scheme provides that in respect of any Scheme Shareholder to which SILK or one of its Subsidiaries has provided a loan for the purpose of their acquisition of Scheme Shares (or their acquisition of any shares in a subsidiary of SILK which were exchanged for Scheme Shares) and that loan remains outstanding as at the Implementation Date, the obligation of API to pay Scheme Consideration will be satisfied by SILK paying from the trust account into which API has deposited the Scheme Consideration:

- to SILK or its Subsidiary (as applicable) the portion of the Scheme Consideration equal to the aggregate amount of the loan which SILK or its Subsidiary (as applicable) is owed by that Scheme Shareholder (in satisfaction of that outstanding loan); and
- as to the balance (if any) of the Scheme Consideration payable to that Scheme Shareholder under the Scheme, to that Scheme Shareholder in accordance with the terms of the Scheme.

FURTHER INFORMATION

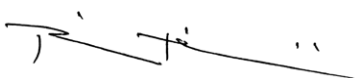
This Scheme Booklet sets out important information regarding the Scheme, including the reasons for your SILK Directors' recommendation and the Independent Expert's Report. It also sets out some of the reasons why you may not wish to vote in favour of the Scheme.

Please read this Scheme Booklet carefully and in its entirety as it will assist you in making an informed decision as to how to vote. I would also encourage you to seek independent financial, legal, taxation or other professional advice before making any voting or investment decision in relation to your SILK Shares. Scheme Shareholders that are not tax residents of Australia should note Section 8.3 (and in particular Sections 8.3(a) and 8.3(c) regarding foreign resident capital gains withholding tax).

If you require any further information, please contact the SILK Shareholder Information Line on 1300 429 201 (inside Australia) or +61 2 7208 4523 (outside Australia) between 8.30am and 5.00pm (Sydney time) Monday to Friday, excluding public holidays.

On behalf of your SILK Directors, I would like to take this opportunity to thank you for your ongoing support of SILK. I look forward to your participation at the Scheme Meeting and encourage you to vote in favour of the Scheme which your SILK Directors believe is in the best interests of SILK Shareholders, and which the Independent Expert has concluded is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.

Yours sincerely



Boris Bosnich
Chairman

01 Key Considerations Relevant to your Vote

The Scheme has a number of advantages and disadvantages that may affect SILK Shareholders in different ways depending on their individual circumstances. SILK Shareholders should seek professional advice on their particular circumstances, as appropriate.

Section 1.1 provides a summary of reasons why you might vote for or against the Scheme.

Section 1.2 provides a more detailed summary of the reasons why your SILK Directors unanimously recommend that SILK Shareholders vote in favour of the Scheme Resolution. Section 1.2 should be read in conjunction with Section 1.3, which sets out reasons why SILK Shareholders may wish to vote against the Scheme Resolution. You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting. While your SILK Directors acknowledge the reasons to vote against the Scheme Resolution, they believe the advantages of the Scheme outweigh the disadvantages.

1.1 SUMMARY OF REASONS WHY YOU MIGHT VOTE FOR OR AGAINST THE SCHEME

Reasons to vote in favour of the Scheme

- Your SILK Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.⁵
- The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.
- The Total Cash Value represents a premium relative to recent historical trading prices of SILK Shares on ASX prior to the announcement of the API Initial Proposal.
- The all cash consideration provides Scheme Shareholders with certainty of value and the opportunity to realise their investment for cash.
- Those SILK Shareholders that are eligible may receive an additional benefit from the value of franking credits attached to any Special Dividend that such SILK Shareholder has or may receive.
- As at the Last Practicable Date, no proposal exists that the SILK Board considers to be a Superior Proposal and the SILK Board is not aware of any Superior Proposal that is likely to emerge.

5. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.

- The Scheme has limited conditionality, being subject only to customary conditions (including SILK Shareholder approval, Court approval and the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders) and is not subject to any financing conditions or further due diligence. As SILK announced to the ASX on 10 August 2023, the ACCC Condition and the NZCC Condition have both been satisfied, subject to the ACCC or the NZCC (as applicable) not withdrawing, suspending or revoking its written confirmation.
- The SILK Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges.
- If the Scheme does not proceed, SILK Shareholders will continue to be exposed to risks associated with SILK's business, rather than realising certain value for their SILK Shares in a certain timeframe.

These reasons are discussed in more detail in Section 1.2 of this Scheme Booklet.

Reasons why you may choose to vote against the Scheme

- You may disagree with your SILK Directors' unanimous recommendation and/or the Independent Expert's conclusion.
- You may prefer to participate in the future financial performance of SILK's business.
- You may believe it is in your best interests to maintain your current investment and risk profile.
- You may consider that there is potential for a proposal to emerge that you consider to be a superior proposal in the foreseeable future.
- The tax consequence of the Scheme may not be suitable for your circumstances.

These reasons are discussed in more detail in Section 1.3 of this Scheme Booklet.

1.2 REASONS TO VOTE IN FAVOUR OF THE SCHEME RESOLUTION

(a) Your SILK Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders

In reaching their recommendation, your SILK Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Scheme, as set out in this Scheme Booklet.

Your SILK Directors believe the Scheme Consideration recognises the value of SILK's existing business and its current financial performance. The Scheme also provides certain cash proceeds in the near term which may not be achieved if the Scheme does not proceed.

In the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders, each of your SILK Directors intends to vote or cause to be voted all SILK Shares held or controlled by them in favour of the Scheme.

01 Key Considerations Relevant to your Vote continued

The interests of SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, and the other SILK Directors are disclosed in Section 9 of this Scheme Booklet. SILK Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Perelman's recommendation on the Scheme, which appears throughout this Scheme Booklet.⁶

(b) The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal

Your SILK Directors appointed Lonergan Edwards & Associates Limited to prepare an Independent Expert's Report, including an opinion as to whether the Scheme is fair and reasonable and in the best interests of SILK Shareholders. The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.

The Independent Expert has assessed the value of a SILK Share to be in the range of \$3.06 to \$3.44 on a 100% controlling interest basis. The Total Cash Value falls within the Independent Expert's assessed valuation range on a 100% controlling interest basis.

Your SILK Directors encourage you to read the Independent Expert's Report, which is set out in Annexure A of this Scheme Booklet.

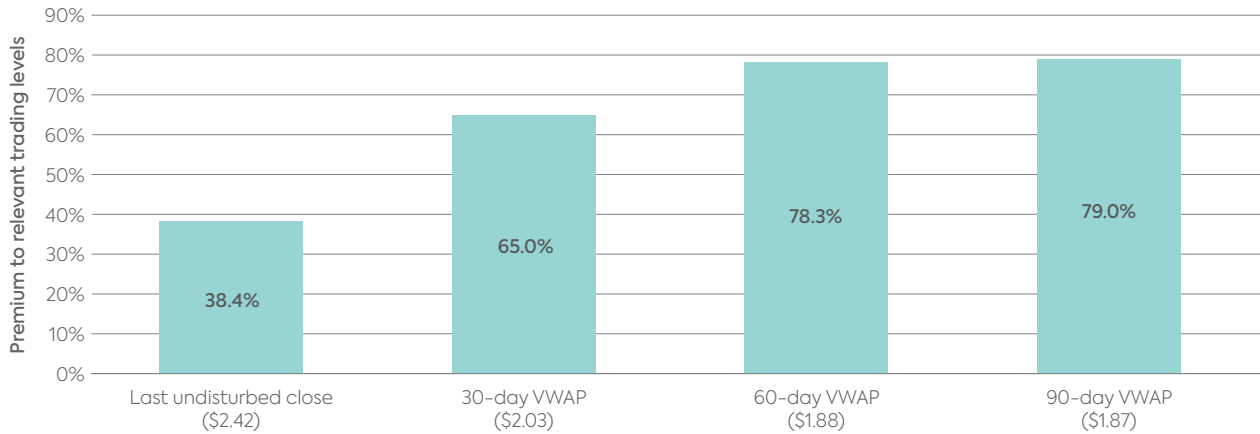
(c) The Total Cash Value represents a premium relative to recent historical trading prices of SILK Shares on ASX prior to the announcement of the API Initial Proposal

The Total Cash Value of \$3.35 per SILK Share represents a premium of:

- 38.4% to the undisturbed closing price of SILK Shares as at 19 April 2023 of \$2.42 (being the last trading day before the announcement of the API Initial Proposal);
- 65.0% to the 30-day VWAP of SILK Shares to and including 19 April 2023 of \$2.03 per SILK Share;
- 78.3% to the 60-day VWAP of SILK Shares to and including 19 April 2023 of \$1.88 per SILK Share;
- 79.0% to the 90-day VWAP of SILK Shares to and including 19 April 2023 of \$1.87 per SILK Share; and
- 6.3% to the API Initial Proposal,

as shown in the chart below.

6. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.



(d) The all cash consideration provides Scheme Shareholders with certainty of value and the opportunity to realise their investment for cash

The offer from API is a 100% cash offer. More specifically, if the Scheme is implemented, Scheme Shareholders will receive the Scheme Consideration (payable by API) of \$3.35 per SILK Share, less the cash amount of any Special Dividend paid by SILK on or prior to the Implementation Date.

The Scheme also provides you with an opportunity to dispose of 100% of your SILK Shares in a single transaction:

- without incurring brokerage; and
- in circumstances where you may (depending on the size of your shareholding) presently face limited opportunities (other than under the Scheme) to achieve full liquidity in respect of your SILK Shares, or may only do so at a discount to the applicable prevailing share price.

This certainty should be compared with the risks and the uncertainties of remaining a SILK Shareholder, which include, but are not limited to, the risks set out in Sections 7.2 and 7.3 of this Scheme Booklet.

(e) Those SILK Shareholders that are eligible may receive an additional benefit from the value of franking credits attached to any Special Dividend that such SILK Shareholder may receive

For those SILK Shareholders who are able to realise the full benefit of franking credits, the franking credits attached to the Special Dividend (if the SILK Board decides to pay one) are potentially worth up to approximately \$0.0429 per SILK Share in relation to any Special Dividend of up to \$0.10 per SILK Share paid for those SILK Shareholders who are able to realise the full benefit of franking credits. The Scheme Consideration will not be reduced by the value of any franking credits. Whether a SILK Shareholder is able to obtain the full benefit of the franking credits depends on their personal tax circumstances. In assessing the value of any Special Dividend, SILK Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances. In particular, SILK Shareholders should note that, depending on the timing of and price at which they acquired their SILK Shares, there may be differences in the tax consequences for them. Refer to Section 8 of this Scheme Booklet for further details.

01 Key Considerations Relevant to your Vote continued

The SILK Board currently intends to pay a fully franked Special Dividend of up to \$0.10 per SILK Share prior to implementation of the Scheme, if the Scheme is approved by SILK Shareholders and the Court and becomes Effective. The final decision on whether or not to pay a Special Dividend will be made by the SILK Board and will depend upon a number of factors, including the availability of franking credits and the requirements of the Corporations Act. The final decision of the SILK Board will be communicated to SILK Shareholders by way of an ASX announcement before the Scheme Meeting, with payment being conditional on the Scheme becoming Effective.

(f) Since the announcement of the Scheme, no proposal exists that the SILK Board considers to be a Superior Proposal

The Scheme Implementation Deed prohibits SILK from soliciting a Competing Proposal. However, the SILK Board is permitted to respond to an actual, proposed or potential Competing Proposal (that was not solicited, encouraged, initiated or invited by SILK or its representatives) provided the SILK Board determines in good faith (i) after consultation with SILK's financial advisers that the actual, proposed or potential Competing Proposal is (or may reasonably be expected to lead to) a Superior Proposal, and (ii) after receiving written advice from SILK's legal advisers, that failing to respond would, or may be reasonably likely to, be contrary to the fiduciary duties or statutory obligations of the SILK Directors. Refer to Section 9.4(j) of this Scheme Booklet for further information on these arrangements.

As at the date of this Scheme Booklet, no Superior Proposal exists and the SILK Board is not aware of any Superior Proposal that is likely to emerge.

(g) The Scheme has limited conditionality

The Scheme is not subject to any financing conditions or further due diligence. As SILK announced to the ASX on 10 August 2023, the ACCC Condition and the NZCC Condition have both been satisfied, subject to the ACCC or the NZCC (as applicable) not withdrawing, suspending or revoking its written confirmation. The Scheme is only subject to customary conditions consistent with schemes of arrangement (including SILK Shareholder approval, Court approval and the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders). Further information relating to the Conditions can be found in Section 3.6 of this Scheme Booklet.

(h) The SILK Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges

On the last trading day prior to announcement of the API Initial Proposal, being 19 April 2023, the closing price for SILK Shares on ASX was \$2.42. On the Last Practicable Date, the closing price for SILK Shares on ASX was \$3.29.

Your SILK Directors believe that the SILK Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges.

(i) If the Scheme does not proceed, SILK Shareholders will continue to be exposed to risks associated with SILK's business, rather than realising certain value for their SILK Shares in a certain timeframe

If the Scheme does not proceed, the value that SILK Shareholders will be able to realise from their SILK Shares (in terms of the price of those SILK Shares and any future dividends paid in respect of them) will be uncertain and subject to a number of risks outlined in Sections 7.2 and 7.3 in this Scheme Booklet.

Among other things, those uncertainties and risks relate to the performance of SILK's business from time to time (in particular, the uncertainties associated with SILK's outlook as described in Section 7.2 of this Scheme Booklet), general economic conditions and movements in the securities markets.

The Scheme removes these risks and uncertainties for SILK Shareholders and the Board considers that it allows SILK Shareholders to realise their investment in SILK at a certain price. If the Scheme is approved and implemented, these risks and uncertainties will be assumed by API, as the sole shareholder of SILK following implementation of the Scheme.

1.3 REASONS WHY YOU MAY CHOOSE TO VOTE AGAINST THE SCHEME RESOLUTION

Your SILK Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.⁷ The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal. However, there may be reasons which lead you to consider voting against the Scheme, including those set out below.

(a) You may disagree with your SILK Directors' unanimous recommendation and/or the Independent Expert's conclusion

In concluding that the Scheme is in the best interests of SILK Shareholders, absent a Superior Proposal, your SILK Directors and the Independent Expert are making judgements based on future trading conditions and events which cannot be predicted with certainty and which may prove to be inaccurate (either positively or negatively).

You may hold a different view from, and are not obliged to follow the recommendation of, your SILK Directors, and may not agree with the Independent Expert's conclusion.

(b) You may prefer to participate in the future financial performance of SILK's business

If the Scheme is implemented, you will no longer be a SILK Shareholder and will forgo any benefits that may result from being a SILK Shareholder.

This will mean that you will not participate in the future performance of SILK, retain any exposure to SILK's business or assets, or have the potential to share in the value that could be generated by SILK in the future. However, there is no guarantee as to SILK's future performance, as is the case with all investments.

(c) You may believe it is in your best interests to maintain your current investment and risk profile

You may prefer to keep your SILK Shares to preserve your investment in a listed company with the specific characteristics of SILK.

In particular, you may consider that, despite the risk factors relevant to SILK's potential future operations (including those set out in Sections 7.2 and 7.3 of this Scheme Booklet), SILK may be able to return greater value from its assets by remaining a standalone entity or by seeking alternative corporate transactions in the future.

You may also consider that it would be difficult to identify or invest in alternative investments that have a similar investment profile to that of SILK or that you may incur transaction costs in undertaking any new investment.

7. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.

01 Key Considerations Relevant to your Vote continued

(d) You may consider that there is potential for a proposal you consider to be a superior proposal in the foreseeable future

It is possible that a more attractive proposal for SILK Shareholders could materialise in the future, such as a change of control transaction with a higher offer price than the Scheme Consideration.

As at the date of this Scheme Booklet, no Superior Proposal exists and the SILK Directors are not aware of any Superior Proposal that is likely to emerge.

(e) The tax consequences of the Scheme may not be suitable for your circumstances

The tax consequences of the Scheme will depend on your personal situation. You may consider that the tax consequences of transferring your SILK Shares to API pursuant to the Scheme are not suitable to you. A general guide to the Australian taxation implications of the Scheme is set out in Section 8 of this Scheme Booklet. However, the outline in Section 8 is expressed in general terms only, and SILK Shareholders are advised to seek independent tax advice from a tax adviser about their particular circumstances including, for foreign resident SILK Shareholders, any foreign tax implications associated with the Scheme.

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02 Frequently Asked Questions

This Section 2 provides summary answers to some questions you may have about the Scheme. It is not intended to address all relevant issues for SILK Shareholders. This Section should be read together with all other parts of this Scheme Booklet.

Question	Answer	More information
Overview of the Scheme		
Why have I received this Scheme Booklet?	<p>This Scheme Booklet has been sent to you because you are a SILK Shareholder and SILK Shareholders are being asked to vote on the Scheme which, if approved, will result in API acquiring all SILK Shares for the Scheme Consideration. This Scheme Booklet is intended to help you consider and decide on how to vote on the Scheme at the Scheme Meeting.</p> <p>If you have transferred all of your SILK Shares please disregard this Scheme Booklet as you will not be entitled to vote at the Scheme Meeting.</p>	Letter from the Chair of SILK and Section 4
What is the Scheme?	<p>The Scheme is a scheme of arrangement between SILK and the Scheme Shareholders.</p> <p>A “scheme of arrangement” is a statutory procedure in the Corporations Act that is commonly used in transactions in Australia that may result in a change of ownership or control of a company. In addition to requiring Court approval, schemes of arrangement require a shareholder vote in favour of a resolution to implement the scheme of arrangement by the Requisite Majorities.</p> <p>If the Scheme becomes Effective, API will acquire all of the Scheme Shares on the Implementation Date for the Scheme Consideration. SILK will be delisted from the ASX and become a wholly owned Subsidiary of API.</p>	Section 3 and Annexure B
Who is Wesfarmers?	<p>Wesfarmers is one of the largest listed companies and private sector employers in Australia, with a corporate office in Perth, Western Australia. Wesfarmers has diverse business operations with a portfolio of retail, industrial and health businesses across Australia and New Zealand.</p>	Section 6.2

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02 Frequently Asked Questions continued

Question	Answer	More information
Overview of the Scheme		
Who is API?	<p>API is a leading Australian pharmaceutical distribution, health and beauty services company that was acquired by Wesfarmers in March 2022 (now a wholly owned Subsidiary of Wesfarmers), forming the Wesfarmers Health division.</p> <p>API is the company that is offering the Scheme Consideration for your SILK Shares. For further information on API, please refer to Section 6.4 of this Scheme Booklet.</p>	Section 6
Does the Wesfarmers Group own SILK Shares?	No. As at the Last Practicable Date, neither API nor any member of the Wesfarmers Group had any Relevant Interests or voting power in any SILK Shares.	Section 6.8
What are API's intentions if the Scheme is implemented?	For information on API's intentions regarding SILK if the Scheme is implemented, please refer to section 6.7 of this Scheme Booklet.	Section 6.7
What SILK Shareholder approvals are required at the Scheme Meeting?	<p>The Scheme can only proceed if, at the Scheme Meeting, the Scheme Resolution is passed. For this to occur, the Scheme Resolution must be approved by:</p> <ul style="list-style-type: none"> • unless the Court orders otherwise, a majority in number (more than 50%) of SILK Shareholders present and voting at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative); and • at least 75% of the total number of votes cast on the Scheme Resolution by SILK Shareholders present and voting at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative). <p>In this Scheme Booklet, approval of this nature is described as the Requisite Majorities.</p>	Section 3.11

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Question	Answer	More information
The Scheme Consideration and the Total Cash Value		
What payment will I receive if the Scheme is implemented?	<p>The Scheme Consideration payable by API under the Scheme is \$3.35 per SILK Share, less the cash amount of any Special Dividend paid by SILK on or before the Implementation Date.</p> <p>If the Scheme becomes Effective, those Scheme Shareholders who received the Special Dividend (if the SILK Board decides to pay one) and the Scheme Consideration will, in aggregate, receive \$3.35 per SILK Share (Total Cash Value).</p> <p>If the Scheme becomes Effective, any SILK Shareholder that is registered as the holder of a SILK Share on the Special Dividend Record Date, but ceases to be registered as the holder of that SILK Share on the Scheme Record Date, will receive the Special Dividend (if the SILK Board decides to pay one) but will not receive the Scheme Consideration in respect of that SILK Share.</p>	Letter from the Chair of SILK and Section 3.3
Who is entitled to participate in the Scheme?	Persons who hold SILK Shares on the Scheme Record Date will participate in the Scheme and, if the Scheme is implemented, those persons will receive the Scheme Consideration in respect of each SILK Share they hold on the Scheme Record Date.	Section 3.5
What premium is being offered to SILK Shareholders?	<p>The Total Cash Value of \$3.35 cash per SILK Share represents a premium of:</p> <ul style="list-style-type: none"> • 38.4% to the undisturbed closing price of SILK Shares as at 19 April 2023 of \$2.42 (being the last trading day before the announcement of the API Initial Proposal); • 65.0% to the 30 day VWAP of SILK Shares to and including 19 April 2023 of \$2.03 per SILK Share; • 78.3% to the 60 day VWAP of SILK Shares to and including 19 April 2023 of \$1.88 per SILK Share; • 79.0% to the 90-day VWAP of SILK Shares to and including 19 April 2023 of \$1.87 per SILK Share; and • 6.3% to the API Initial Proposal. 	Letter from the Chair of SILK and Section 1.2(c)
How is API funding the Scheme Consideration?	<p>API has entered into the Deed Poll to covenant in favour of the Scheme Shareholders to perform its obligations in relation to the Scheme. Those obligations include providing the Scheme Consideration to the Scheme Shareholders in accordance with the Scheme.</p> <p>On the basis of the arrangements described in Section 6.6, API believes that it will be able to satisfy its obligation to provide the Scheme Consideration as and when it is due under the terms of the Scheme.</p>	Section 6.6 and Annexure C

02 Frequently Asked Questions continued

Question	Answer	More information
The Scheme Consideration and the Total Cash Value		
<p>When and how will I receive my Scheme Consideration?</p>	<p>If the Scheme becomes Effective:</p> <ul style="list-style-type: none"> • if the SILK Board decides to pay a Special Dividend, SILK Shareholders on the Register as at the Special Dividend Record Date will be paid the Special Dividend on the Special Dividend Payment Date (currently expected to be Tuesday, 28 November 2023); and • Scheme Shareholders will be sent the Scheme Consideration on the Implementation Date (currently expected to be Wednesday, 29 November 2023). <p>All payments will be made in Australian currency by direct deposit into your nominated bank account, as advised to the Share Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your Registered Address.</p> <p>If you have not previously nominated a bank account, or you would like to change your existing nominated bank account, you should contact the Share Registry on 1300 556 161 (inside Australia) or +61 3 9415 4000 (outside Australia), Monday to Friday (excluding public holidays) between 8.30am and 5.00pm (Sydney time) or visit the website www.computershare.com.au/easyupdate/sla and follow the prompts to update your details on the Register before the Scheme Record Date.</p> <p>SILK Shareholders who are current or former SILK Group employees or officers and who have an amount owing under a limited recourse loan agreement with a member of the SILK Group should have regard to Section 3.13 regarding repayment of those loans.</p>	<p>Section 3.5</p>
<p>What are the tax implications of the Scheme?</p>	<p>The general Australian taxation implications of the Scheme are set out in Section 8 of this Scheme Booklet.</p> <p>The outline in Section 8 is general in nature and should not be relied upon as advice. The tax consequences for each SILK Shareholder may vary depending upon individual circumstances. Accordingly, you should seek your own professional taxation advice as to the Australian, and if applicable, foreign tax implications, before making a decision as to whether or not to vote in favour of the Scheme.</p> <p>A class ruling is being sought in relation to the taxation implications of the Scheme, including the availability of franking credits attached to any Special Dividend. As at the date of this Scheme Booklet, the ATO has not made a determination in respect to SILK's Class Ruling application. However, SILK expects that the ATO will issue a draft of the Class Ruling prior to the Scheme Meeting. When the final Class Ruling is published by the ATO, it will be available on the ATO's website at www.ato.gov.au and will also be published on SILK's website at https://silklaser.com.au/investors/.</p>	<p>Section 8</p>

Question	Answer	More information
The Special Dividend		
What is the Special Dividend?	<p>The SILK Board currently intends to pay a fully franked Special Dividend of up to \$0.10 per SILK Share prior to implementation of the Scheme, if the Scheme is approved by SILK Shareholders and the Court and becomes Effective.</p> <p>The final decision on whether or not to pay a Special Dividend will be made by the SILK Board and will depend upon a number of factors, including the availability of franking credits and the requirements of the Corporations Act.</p> <p>The final decision of the SILK Board will be communicated to SILK Shareholders by way of an ASX announcement before the Scheme Meeting.</p>	Sections 3.4 and 8
Will any Special Dividend be franked?	<p>The SILK Board currently intends that, if any Special Dividend is to be paid, it will be fully franked.</p> <p>Assuming a fully franked Special Dividend of up to \$0.10 is paid, SILK Shareholders who can capture the full benefit of the franking credits associated with such a Special Dividend may receive an additional benefit valued at up to approximately \$0.0429 per SILK Share.</p> <p>The value of the franking credits attached to any Special Dividend will not be the same for all SILK Shareholders. Whether a SILK Shareholder is able to capture the full benefit of the franking credits will depend on their personal tax circumstances.</p> <p>In assessing the value to you of any Special Dividend or franking credits, you should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to you based on your own particular circumstances. In particular, you should note that, depending on the timing of and price at which you acquired your SILK Shares, there may be differences in the tax consequences for you.</p>	Sections 3.4 and 8
Will I be paid any further distributions from SILK if the Scheme becomes Effective?	<p>If the SILK Board decides to pay the Special Dividend and the Scheme becomes Effective, then if you are registered as a SILK Shareholder on the Special Dividend Record Date you will be paid the Special Dividend on or prior to implementation of the Scheme on the Special Dividend Payment Date. After that, you will not receive any further distributions from SILK.</p> <p>However, persons who hold SILK Shares on the Scheme Record Date will participate in the Scheme and, if the Scheme is implemented, those persons will receive the Scheme Consideration in respect of each SILK Share they hold on the Scheme Record Date.</p>	

02 Frequently Asked Questions continued

Question	Answer	More information
The Scheme Meeting and Voting Details		
When and where will the Scheme Meeting be held?	<p>The Scheme Meeting is scheduled to be held at 10.30am Sydney time (10.00am Adelaide time) on Friday, 10 November 2023 at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000.</p> <p>See the Notice of Scheme Meeting in Annexure D of this Scheme Booklet for further details relating to the conduct of the Scheme Meeting.</p>	Letter from the Chair of SILK, Section 4.3 and Annexure D
What am I being asked to vote on?	<p>You are being asked to vote on whether to approve the Scheme by voting on the Scheme Resolution.</p> <p>The text of the Scheme Resolution is set out in the Notice of Scheme Meeting in Annexure D of this Scheme Booklet.</p>	Annexure D
What vote is required to approve the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed by the Requisite Majorities.	Section 3.11 and Annexure D
Who is entitled to vote at the Scheme Meeting?	Each SILK Shareholder who is registered on the Register at 7.00pm Sydney time (6.30pm Adelaide time) on Wednesday, 8 November 2023 is entitled to attend and vote at the Scheme Meeting.	Section 4.4 and Annexure D
How do I vote?	<p>You may vote on the Scheme Resolution:</p> <ul style="list-style-type: none"> • by attending the meeting in person; • by proxy or attorney, by completing and lodging a proxy form, or a duly executed power of attorney, as applicable so that it is received by 10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023; or • by a corporate representative (in the case of a SILK Shareholder which is a body corporate). <p>Voting is not compulsory. However, your vote is important and the Scheme may be implemented even if you do not vote on the Scheme Resolution required to implement the Scheme.</p>	Section 4.5 and Annexure D
How will voting at the Scheme Meeting be conducted?	<p>Voting at the Scheme Meeting will be conducted by way of a poll.</p> <p>This means that every SILK Shareholder, at the Scheme Meeting, who is present in person or by proxy, representative or attorney will have one vote for each SILK Share held by them.</p>	Annexure D

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Question	Answer	More information
The Scheme Meeting and Voting Details		
What choices do I have as a SILK Shareholder	<p>As a SILK Shareholder, you have the following choices in relation to the Scheme:</p> <ul style="list-style-type: none"> • vote in favour of the Scheme Resolution at the Scheme Meeting; • vote against the Scheme Resolution at the Scheme Meeting; • sell your SILK Shares on the ASX; or • do nothing. 	Section 3.10
What will happen to my SILK Shares if I do not vote, or vote against the Scheme, and the Scheme becomes Effective?	<p>If you do not vote on, or you vote against, the Scheme, and the Scheme becomes Effective:</p> <ul style="list-style-type: none"> • any SILK Shares held by you on the Scheme Record Date (expected to be 7.00pm Sydney time (6.30pm Adelaide time) on Wednesday, 22 November 2023) will be Scheme Shares and will be transferred to API on the Implementation Date despite not having voted on, or voting against, the Scheme Resolution; and • you will receive the Scheme Consideration and any Special Dividend that the SILK Board decides to pay (provided you are registered as a SILK Shareholder on the Scheme Record Date and the Special Dividend Record Date, respectively). 	Section 3.10
When will the results of the Scheme Meeting be available?	The results of the Scheme Meeting will be announced to ASX shortly after conclusion of the Scheme Meeting and will be available on SILK's website at https://silklaser.com.au/investors/ .	

02 Frequently Asked Questions continued

Question	Answer	More information
Voting Considerations		
<p>What do the SILK Directors recommend and how do the SILK Directors intend to vote?</p>	<p>Your SILK Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.</p> <p>Section 1.2 of this Scheme Booklet provides a summary of the reasons why your SILK Directors consider that you should vote in favour of the Scheme, again in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.</p> <p>As at the date of this Scheme Booklet, no Superior Proposal exists and the SILK Directors are not aware of any Superior Proposal that is likely to emerge. Each SILK Director who holds or controls SILK Shares intends to vote, or cause to be voted, all SILK Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.</p> <p>The interests of SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, and the other SILK Directors are disclosed in Section 9 of this Scheme Booklet. SILK Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Perelman's recommendation on the Scheme, which appears throughout this Scheme Booklet.⁸</p> <p>In considering whether to vote in favour of the Scheme, your SILK Directors encourage you to:</p> <ul style="list-style-type: none"> • carefully read all of this Scheme Booklet (including the Independent Expert's Report); • have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and • obtain advice from your legal, financial, tax or other professional advisers on the effect of the Scheme becoming Effective. 	<p>Letter from the Chair of SILK and Section 1.2</p>

8. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.

Question	Answer	More information
Voting Considerations		
What is the Independent Expert's conclusion?	The Independent Expert has concluded in the Independent Expert's Report that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.	Letter from the Chair of SILK and Annexure A
Why might I vote in favour of the Scheme?	Reasons why you might vote in favour of the Scheme are set out in Section 1.2 of this Scheme Booklet.	Section 1.2
Why might I vote against the Scheme?	Reasons why you might vote against the Scheme are set out in Section 1.3 of this Scheme Booklet.	Section 1.3
Is the SILK Board aware of a Superior Proposal?	<p>As at the date of this Scheme Booklet, no Superior Proposal exists and the SILK Directors are not aware of any Superior Proposal that is likely to emerge.</p> <p>In this regard, SILK Shareholders should also bear in mind the restrictions imposed on SILK under the Scheme Implementation Deed, which are summarised in the Frequently Asked Questions immediately below and in Section 9.4(j) of this Scheme Booklet, which may reduce the likelihood that a Superior Proposal emerges or is ultimately completed.</p>	Sections 1.2(f) and 9.4(j)
What happens if a Competing Proposal emerges?	<p>Until the Scheme is approved by the Court, there is nothing preventing Third Parties from making unsolicited acquisition proposals for SILK.</p> <p>During the Exclusivity Period, SILK must not, in summary:</p> <ul style="list-style-type: none"> • solicit, encourage, initiate or invite any enquiries, expressions of interest, offers, discussions, negotiations or proposals in relation to (or with a view to obtaining any offer, proposal or expression of interest from any person in relation to), or which may reasonably be expected to encourage or lead to, an actual, proposed or potential Competing Proposal (or which may otherwise lead to the Scheme not being completed), or solicit, initiate or encourage any party (other than API or its Representatives) to undertake due diligence on SILK or any member of the SILK Group, or any of their business and operations, in connection with or with a view to formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal (no shop), 	Section 9.4(j)

02 Frequently Asked Questions continued

Question	Answer	More information
Voting Considerations		
What happens if a Competing Proposal emerges? continued	<ul style="list-style-type: none">• negotiate, accept or enter into or offer or agree to negotiate, accept or enter into or facilitate or participate in or continue any negotiations or discussions with any other person regarding an actual, proposed or potential Competing Proposal or any agreement, understanding or arrangement that may be reasonably expected to encourage or lead to an actual, proposed or potential Competing Proposal or which may otherwise lead to the Scheme not being completed, even if that person's Competing Proposal was not directly or indirectly solicited, invited, encouraged or initiated by SILK or any of its Representatives or the person has publicly announced the Competing Proposal (no talk); and• directly or indirectly make available to any other person (other than API or its Representatives) or permit such person to receive any non-public information relating to the SILK Group, in connection with or with a view to obtaining or which may reasonably be expected to encourage or lead to such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal (no due diligence), <p>noting that the no talk and no due diligence restrictions are subject to a fiduciary exception.</p> <p>These (and other) provisions of the Scheme Implementation Deed are summarised in greater detail in Section 9.4 of this Scheme Booklet.</p> <p>If a Competing Proposal for SILK emerges prior to the Second Court Hearing, the SILK Directors will carefully consider the proposal and determine whether it is a Superior Proposal. Your SILK Directors will keep you informed of any material developments.</p>	Section 9.4(j)

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Question	Answer	More information
Conditions and Implementation of the Scheme		
What are the conditions to the Scheme?	<p>The Scheme is subject to various customary Conditions that must be satisfied or waived (if capable of waiver) in order for the Scheme to be implemented. A summary of the Conditions is set out in Sections 3.6 and 9.4(d) of this Scheme Booklet and set out in full in clause 3 of the Scheme Implementation Deed.</p> <p>As SILK announced to the ASX on 10 August 2023, the ACCC Condition and the NZCC Condition have both been satisfied, subject to the ACCC or the NZCC (as applicable) not withdrawing, suspending or revoking its written confirmation.</p> <p>As at the date of this Scheme Booklet, SILK is not aware of any circumstances which would cause any outstanding Condition not to be satisfied or waived (if capable of waiver).</p>	Sections 3.6 and 9.4(d)
When will the Scheme become Effective	<p>Subject to the satisfaction or (if applicable) waiver of the Conditions, the Scheme will become Effective on the date on which the Court order approving the Scheme is lodged with ASIC (this is the Effective Date).</p> <p>This is expected to occur on Thursday, 16 November 2023.</p>	Step 3 of Section 3.11
What happens on the Implementation Date?	<p>On the Implementation Date:</p> <ul style="list-style-type: none"> • API will acquire all the Scheme Shares; and • Scheme Consideration will be sent to Scheme Shareholders. <p>The Implementation Date is currently expected to be Wednesday, 29 November 2023.</p>	Step 6 of Section 3.11

02 Frequently Asked Questions continued

Question	Answer	More information
Conditions and Implementation of the Scheme		
What happens if the Scheme does not become Effective?	<p>If the Scheme does not become Effective:</p> <ul style="list-style-type: none"> • you will not receive the Scheme Consideration or any Special Dividend; and • you will retain your SILK Shares and continue to have exposure to the benefits and risks associated with an investment in SILK. Details of these risks are set out in Sections 7.2 and 7.3, <p>and, in the absence of a Competing Proposal:</p> <ul style="list-style-type: none"> • SILK will continue to operate as a standalone entity and remain listed on ASX; and • the SILK Share price may fall in the near-term if no Superior Proposal emerges. 	Sections 3.9 and 7
Can the Scheme Implementation Deed be terminated?	<p>The Scheme Implementation Deed may be terminated by SILK or API (as applicable) in a limited number of circumstances. These are summarised in Section 9.4(f) of this Scheme Booklet. If the Scheme Implementation Deed is terminated, the Scheme will not proceed.</p>	Section 9.4(f)
Is there a reimbursement or break fee payable?	<p>Under the Scheme Implementation Deed, a Break Fee of \$1,779,559.43, plus any GST may become payable by SILK to API, or by API to SILK, if certain events occur and the Scheme does not proceed. However, if the Scheme is not approved by SILK Shareholders, this will not trigger the payment of the Break Fee by SILK.</p> <p>The circumstances in which the Break Fee is payable by SILK or API are summarised in Section 9.4(k) of this Scheme Booklet.</p>	Section 9.4(k)

Question	Answer	More information
Additional Information		
Can I sell my SILK Shares now?	<p>You can sell your SILK Shares on market at any time before close of trading on ASX on the Effective Date at the then prevailing market price.</p> <p>SILK intends to apply to ASX for SILK Shares to be suspended from official quotation on ASX from close of trading on the Effective Date (which is currently expected to be Thursday, 16 November 2023).</p> <p>You will not be able to sell your SILK Shares on market after this time.</p> <p>If you sell your SILK Shares on market, you may be required to pay brokerage.</p>	Section 3.10
Will I need to pay brokerage or stamp duty?	No. Scheme Shareholders will not incur any brokerage or stamp duty on the transfer of their Scheme Shares under the Scheme.	Section 8
What can I do if I oppose the Scheme?	<p>If you, as a SILK Shareholder, are opposed to the Scheme, you have the option to:</p> <ul style="list-style-type: none"> • call the SILK Shareholder Information Line on 1300 429 201 (inside Australia) or +61 2 7208 4523 (outside Australia) on Monday to Friday between 8.30am and 5.00pm (Sydney time) and obtain further information; • attend the Scheme Meeting in person, or by proxy or attorney (or by corporate representative, if applicable) and vote against the Scheme Resolution; and/or • if SILK Shareholders pass the Scheme Resolution at the Scheme Meeting, appear and be heard at the Second Court Hearing to oppose the approval of the Scheme at that hearing (please see the “Important Notices” Section of this Scheme Booklet for further details under the heading “Notice of Second Court Hearing”). 	Important Notices and Section 4
Is there a number that I can call if I have further queries about the Scheme?	If, after reading this Scheme Booklet, you have any questions about the Scheme, please contact the SILK Shareholder Information Line on 1300 429 201 (inside Australia) or +61 2 7208 4523 (outside Australia) on Monday to Friday between 8.30am and 5.00pm (Sydney time).	

03 Summary of the Scheme

3.1 INTRODUCTION

On 26 June 2023, SILK entered into a Scheme Implementation Deed with API, under which the parties have agreed to implement the Scheme between SILK and the Scheme Shareholders. A full copy of the Scheme Implementation Deed is attached to SILK's announcement to the ASX relating to the Scheme on 26 June 2023.

A summary of the key terms of the Scheme Implementation Deed is set out in Section 9.4.

3.2 WHAT IS THE SCHEME?

The Scheme is a scheme of arrangement between SILK and the Scheme Shareholders.

A "scheme of arrangement" is a statutory procedure in the Corporations Act that is commonly used in transactions in Australia that may result in a change of ownership or control of a company. In addition to requiring Court approval, schemes of arrangement require a shareholder vote in favour of a resolution to implement the scheme of arrangement by the Requisite Majorities.

If the Scheme is approved by SILK Shareholders at the Scheme Meeting by the Requisite Majorities and by the Court, and if all Conditions for the Scheme are satisfied or (if permitted) waived, API will acquire all of the Scheme Shares on the Implementation Date for the Scheme Consideration. SILK will be delisted from the ASX and become a wholly owned Subsidiary of API.

If the Scheme is not approved, the Scheme will not be implemented, SILK Shareholders will not receive the Scheme Consideration or any Special Dividend and SILK will continue as a standalone entity listed on the ASX. If the Scheme is not approved by SILK Shareholders at the Scheme Meeting by the Requisite Majorities and by the Court SILK will not pay the Special Dividend.

3.3 OVERVIEW OF THE TOTAL CASH VALUE

If the Scheme becomes Effective, SILK Shareholders who are registered as such on both the Scheme Record Date and the Special Dividend Record Date will receive the Total Cash Value of \$3.35 per SILK Share. This comprises, in aggregate:

- the amount of any Special Dividend that the SILK Board decides to pay and that is paid on or before the Implementation Date; and
- the Scheme Consideration, less the cash amount of any Special Dividend paid by SILK on or before the Implementation Date.

Subject to the Scheme becoming Effective, any SILK Shareholder that is registered as the holder of a SILK Share on the Special Dividend Record Date, but ceases to be registered as the holder of that SILK Share on the Scheme Record Date will receive the Special Dividend (if the SILK Board decides to pay one) but will not receive the Scheme Consideration in respect of that SILK Share.

See Section 3.9 of this Scheme Booklet for more information.

3.4 SPECIAL DIVIDEND

The SILK Board currently intends to pay a fully franked Special Dividend of up to \$0.10 per SILK Share prior to implementation of the Scheme, if the Scheme is approved by SILK Shareholders and the Court and becomes Effective. The final decision on whether or not to pay a Special Dividend will be made by the SILK Board and will depend upon a number of factors, including the availability of franking credits and the requirements of the Corporations Act. The final decision of the SILK Board will be communicated to SILK Shareholders by way of an ASX announcement before the Scheme Meeting, with payment being subject to the Scheme becoming Effective.

If the SILK Board decides to pay a fully franked Special Dividend of up to \$0.10 per SILK Share prior to implementation of the Scheme, SILK intends to fund the payment of the Special Dividend from SILK's cash reserves. The Special Dividend will be paid in Australian currency regardless of the location of SILK Shareholders.

3.5 PROVISION OF SCHEME CONSIDERATION

The Scheme Consideration will be sent to Scheme Shareholders on the Implementation Date (currently expected to be Wednesday, 29 November 2023).

It is important to note that you will only receive the Scheme Consideration if you are a Scheme Shareholder. You will be a Scheme Shareholder if you hold SILK Shares at the Scheme Record Date (currently expected to be 7.00pm (Sydney time) on Wednesday, 22 November 2023 or such other time and date as SILK and API agree in writing).

If the SILK Board decides to pay a Special Dividend, SILK Shareholders on the Register as at the Special Dividend Record Date will be paid the Special Dividend on the Special Dividend Payment Date (currently expected to be Tuesday, 28 November 2023), subject to the Scheme becoming Effective.

All payments will be made in Australian currency by direct deposit into your nominated bank account as advised to the Share Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your Registered Address.

If you have not previously nominated a bank account, or you would like to change your existing nominated bank account, you should contact the Share Registry on 1300 556 161 (inside Australia) or +61 3 9415 4000 (outside Australia), Monday to Friday (excluding public holidays) between 8.30am and 5.00pm (Sydney time) or visit the website www.computershare.com.au/easyupdate/sla and follow the prompts to update your details on the Register before the Scheme Record Date.

SILK Shareholders who are current or former SILK Group employees or officers and who have an amount owing under a limited recourse loan agreement with a member of the SILK Group should have regard to Section 3.13 regarding repayment of those loans.

3.6 CONDITIONS TO THE SCHEME

Pursuant to the Scheme Implementation Deed, a number of outstanding Conditions need to be satisfied or (if permitted) waived before the Scheme can be implemented. Some of these conditions include (but are not limited to) the following (in summary):

- (a) **ACCC Condition:** API receives from the ACCC confirmation that it will not intervene into or seek to prevent the Scheme before 8.00am on the Second Court Date;
- (b) **NZCC Condition:** API receives from the NZCC confirmation that it will not intervene into or seek to prevent the Scheme before 8.00am on the Second Court Date;
- (c) **Independent Expert's Report:** The Independent Expert concludes in the Independent Expert's Report that the Scheme is in the best interests of SILK Shareholders (and does not change that conclusion by 8.00am on the Second Court Date);

03 Summary of the Scheme continued

- (d) **SILK Shareholder approval:** The Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting;
- (e) **No Material Adverse Change:** No Material Adverse Change occurs, is announced or becomes known to API between the Announcement Date and 8.00am on the Second Court Date;
- (f) **No Prescribed Occurrence:** No Prescribed Occurrence has occurred between the Announcement Date and 8.00am on the Second Court Date;
- (g) **SILK Performance Rights:** SILK has taken all necessary steps by 8.00am on the Second Court Date to ensure that all SILK Performance Rights will vest, lapse, be cancelled or will otherwise be dealt with in accordance with clause 8 of the Scheme Implementation Deed (excluding the actual vesting, lapsing or cancellation pursuant to that clause);
- (h) **Representations and warranties:** The representations and warranties given by SILK and API under the Scheme Implementation Deed are true and correct in all material respects as at the time given or made;
- (i) **No restraints:** By 8.00am on the Second Court Date, there is not in effect any temporary, preliminary or final order, decision or decree issued by any court of competent jurisdiction or Government Agency which restrains or prohibits the Scheme;
- (j) **Court approval:** the Court approves the Scheme; and
- (k) **ASIC and ASX:** By 8.00am on the Second Court Date, ASIC and ASX issue or provide any consents or approvals, or have done any other acts, which API and SILK agree in writing are reasonably necessary or desirable to implement the Scheme, and those consents, approvals or other acts have not been withdrawn or revoked at that time.

Further details in relation to the Conditions and their status as at the date of this Scheme Booklet are set out in Section 9.4 of this Scheme Booklet. The Scheme will not proceed unless all of the Conditions are satisfied or (if permitted) waived in accordance with the Scheme Implementation Deed.

As SILK announced to the ASX on 10 August 2023, the ACCC Condition and the NZCC Condition have both been satisfied, subject to the ACCC or the NZCC (as applicable) not withdrawing, suspending or revoking its written confirmation.

3.7 SILK DIRECTORS' UNANIMOUS RECOMMENDATION AND VOTING INTENTIONS

Your SILK Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal, and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.

Each SILK Director intends to vote, or cause to be voted, all the SILK Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal, and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders. As at the Last Practicable Date, the SILK Directors held Relevant Interests in an aggregate of 4,704,787 SILK Shares, comprising approximately 8.86% of the issued capital in SILK.

The interests of SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, and the other SILK Directors are disclosed in Section 9 of this Scheme Booklet. SILK Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Perelman's recommendation on the Scheme, which appears throughout this Scheme Booklet.⁹

Your SILK Directors believe that the reasons for you to vote in favour of the Scheme outweigh the reasons to vote against the Scheme. These reasons and other relevant considerations for SILK Shareholders are set out in Section 1 of this Scheme Booklet.

3.8 INDEPENDENT EXPERT'S CONCLUSION

The SILK Board appointed Lonergan Edwards & Associates Limited as the Independent Expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.

The Independent Expert has assessed the value of a SILK Share to be in the range of \$3.06 to \$3.44 on a 100% controlling interest basis. The Total Cash Value falls within the Independent Expert's assessed valuation range on a 100% controlling interest basis.

The reasons why the Independent Expert reached its conclusion are set out in the Independent Expert's Report, a copy of which is included in Annexure A of this Scheme Booklet. Your SILK Directors encourage you to read the Independent Expert's Report in full before deciding how to vote on the Scheme.

3.9 IMPLICATIONS IF THE SCHEME IS NOT IMPLEMENTED

If the Scheme is not implemented:

- SILK Shareholders will continue to hold their SILK Shares and will be exposed to general risks as well as risks specific to SILK, including those set out in Sections 7.2 and 7.3 of this Scheme Booklet, and the benefits, of owning SILK Shares;
- Scheme Shareholders will not receive the Scheme Consideration or any Special Dividend;
- a Break Fee of \$1,779,559.43 (plus any GST) may be payable by SILK to API, or by API to SILK, under certain circumstances. If the Scheme is not approved by SILK Shareholders, this will not trigger payment of the Break Fee by SILK. Further information on the Break Fee is set out in Section 9.4(k) of this Scheme Booklet;
- SILK will continue to operate as a standalone, ASX-listed entity with management continuing to implement the business plan and financial and operating strategies it had in place prior to the Announcement Date (subject to any modifications or updates which are considered appropriate by the SILK Directors); and
- the SILK Directors are of the opinion that the SILK Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges.

9. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.

3.10 YOUR CHOICES AS A SILK SHAREHOLDER

As a SILK Shareholder, you have four choices currently available to you, which are as follows:

<p>Vote in favour of the Scheme</p>	<p>This is the course of action unanimously recommended by the SILK Directors, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders.</p> <p>To follow the SILK Directors' unanimous recommendation, you should vote in favour of the Scheme Resolution at the Scheme Meeting. For a summary of how to vote on the Scheme Resolution, please refer to Section 4 and the Notice of Scheme Meeting contained in Annexure D of this Scheme Booklet.</p> <p>The interests of SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, and the other SILK Directors are disclosed in Section 9 of this Scheme Booklet. SILK Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Perelman's recommendation on the Scheme, which appears throughout this Scheme Booklet.¹⁰</p> <p>The reasons why you may vote in favour of the Scheme are set out in detail in Section 1.2 of this Scheme Booklet.</p>
<p>Vote against the Scheme</p>	<p>If, despite the SILK Directors' unanimous recommendation and the Independent Expert's conclusion that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal, you do not support the Scheme, you may vote against the Scheme Resolution at the Scheme Meeting.</p> <p>The reasons why you might consider voting against the Scheme Resolution are set out in detail in Section 1.3 of this Scheme Booklet.</p> <p>However, if all the Conditions for the Scheme are satisfied or waived (if capable of waiver) and the Scheme becomes Effective, the Scheme will bind all Scheme Shareholders, including those who do not attend the Scheme Meeting and those who do not vote, or vote against the Scheme Resolution, at the Scheme Meeting.</p>

10. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme. As noted in Section 9.3(c), each of SILK's Non-Executive Directors is entitled to receive special exertion fees in connection with the Scheme (ranging from \$22,200 to \$111,000 individually, and totalling \$177,600 in aggregate, inclusive of superannuation), which are not conditional on the Scheme being implemented. Each of SILK's Non-Executive Directors considers that it is appropriate for him or her to make a recommendation on the Scheme notwithstanding these fees.

<p>Sell your SILK Shares on the ASX</p>	<p>The Scheme does not preclude you from selling some or all of your SILK Shares on market for cash, if you wish, provided you do so before close of trading on the ASX on the Effective Date (currently expected to be Thursday, 16 November 2023), when trading in SILK Shares will end.</p> <p>If you are considering selling some or all of your SILK Shares:</p> <ul style="list-style-type: none"> • you should have regard to the prevailing trading prices of SILK Shares and compare it to the Scheme Consideration and any Special Dividend that is paid. You may ascertain the current trading prices of SILK Shares through the ASX website (www.asx.com.au); and • you should contact your stockbroker for information on how to effect that sale, and you should also contact your financial, taxation, legal or other professional adviser. <p>SILK Shareholders who sell some or all of their SILK Shares on market:</p> <ul style="list-style-type: none"> • may receive payment (which may vary from the Scheme Consideration and any Special Dividend that the SILK Board decides to pay) for the sale of their SILK Shares sooner than they would receive the Scheme Consideration and any Special Dividend that is paid under the Scheme; • may incur a brokerage charge; • will not be able to participate in the Scheme or, if one emerges, a Superior Proposal, in respect of those SILK Shares they have sold; and • may be liable for capital gains tax (CGT) on the disposal of their SILK Shares (as they also may be under the Scheme – see Section 8 of this Scheme Booklet).
<p>Do nothing</p>	<p>If, despite the SILK Directors' unanimous recommendation and the Independent Expert's conclusion that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal, you decide to do nothing, you should note that if all the Conditions for the Scheme are satisfied or waived (if capable of waiver) and the Scheme becomes Effective, the Scheme will bind all SILK Shareholders, including those who do not attend the Scheme Meeting and those who do not vote, or vote against the Scheme Resolution, at the Scheme Meeting.</p> <p>Your vote is important. If the Scheme Resolution is not approved by the Requisite Majorities of SILK Shareholders, you will not be entitled to receive the Total Cash Value.</p>

3.11 KEYS STEPS TO IMPLEMENT THE SCHEME

Each key step to implement the Scheme and relevant information concerning these steps are set out below. All dates following the Scheme Meeting are indicative only and may be subject to change. SILK will announce to ASX any change to the dates set out in the “Important Dates and Expected Timetable for the Scheme” on page 03 of this Scheme Booklet.

Step 1. Scheme Meeting and Scheme approval requirements

In accordance with an order of the Court dated 4 October 2023, SILK has convened the Scheme Meeting which is scheduled to be held at 10.30am Sydney time (10.00am Adelaide time) on Friday, 10 November 2023. The Notice of Scheme Meeting is set out in Annexure D of this Scheme Booklet.

At the Scheme Meeting, the SILK Shareholders will be asked to approve the Scheme Resolution. The Requisite Majorities of SILK Shareholders to approve the Scheme Resolution are:

- (a) (**headcount test**) unless the Court orders otherwise, a majority in number (i.e. more than 50%) of SILK Shareholders present and voting on the Scheme Resolution at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative); and
- (b) (**voting test**) at least 75% of the total number of votes cast on the Scheme Resolution by SILK Shareholders present and voting at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative).

The Court has the power to waive the first requirement.

Instructions on how to vote at the Scheme Meeting are set out in Section 4 and the Notice of Scheme Meeting in Annexure D of this Scheme Booklet.

The results of the Scheme Meeting will be available as soon as possible after the conclusion of the Scheme Meeting and will be announced to the ASX (www.asx.com.au) once available.

Steps 2 to 6 described below will only occur if the Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting.

Step 2. Court approval of the Scheme

In the event that:

- (a) the Scheme Resolution is approved by the Requisite Majorities; and
- (b) all of the other Conditions (other than Court approval) have been satisfied or (if permitted) waived,

SILK will apply to the Court for an order approving the Scheme.

The Second Court Hearing is expected to take place on Wednesday, 15 November 2023. Any SILK Shareholder and, with the Court’s permission, any other interested person, has a right to appear at the Second Court Hearing.

Step 3. Effective Date

If the Court makes an order approving the Scheme at the Second Court Hearing (referred to in this Scheme Booklet as the **Scheme Order**), SILK will lodge an office copy of the Scheme Order with ASIC. It is anticipated that the Scheme Order will be lodged with ASIC the day after the Second Court Hearing. Once lodged, the Scheme will become Effective and binding on SILK and each Scheme Shareholder (referred to in this Scheme Booklet as the **Effective Date**). API will be bound to pay the Scheme Consideration under the Deed Poll.

On the Effective Date, SILK will notify ASX that the Scheme has become Effective and lodge a copy of the Scheme Order with ASX. Trading in SILK Shares on ASX will be suspended from close of trading on the Effective Date. If the Scheme Order is made (and the Second Court Hearing occurs on the expected date), the Effective Date is expected to be Thursday, 16 November 2023.

Once the Scheme becomes Effective, each Scheme Shareholder, without the need for any further act, irrevocably appoints SILK and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purposes of enforcing the Deed Poll against API and executing any document or doing any other act necessary, desirable or expedient to give full effect to the Scheme and the transactions contemplated by it. This includes executing a proper instrument of transfer in respect of a Scheme Shareholder's Scheme Shares.

Step 4. Special Dividend Record Date, entitlement to any Special Dividend and Special Dividend Payment Date

If the SILK Board decides to pay a Special Dividend, those SILK Shareholders who are recorded on the Register on the Special Dividend Record Date (currently expected to be 7.00pm (Sydney time) on Tuesday, 21 November 2023) will be entitled to receive the Special Dividend in respect of the SILK Shares held at that time and will be paid the Special Dividend on the Special Dividend Payment Date (currently expected to be Tuesday, 28 November 2023), subject to the Scheme becoming Effective.

Step 5. Scheme Record Date and entitlement to Scheme Consideration

Those SILK Shareholders on the Register on the Scheme Record Date (currently expected to be 7.00pm (Sydney time) on Wednesday, 22 November 2023), will be entitled to receive the Scheme Consideration in respect of the SILK Shares they hold at that time.

(a) Dealings in SILK Shares on or prior to the Scheme Record Date

For the purposes of determining who is a Scheme Shareholder (i.e. a SILK Shareholder on the Scheme Record Date), dealings in SILK Shares will only be recognised if:

- (i) in the case of dealings of the type to be effected using CHES, the transferee is registered in the Register as the holder of the relevant SILK Shares at or before the Scheme Record Date; and
- (ii) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Scheme Record Date at the place where the Register is kept.

SILK will not accept for registration or recognise for any purpose, any transfer or transmission application or other request in respect of SILK Shares received after the Scheme Record Date, or received prior to the Scheme Record Date but not in registrable or actionable form.

(b) Determining entitlements to Scheme Consideration

For the purposes of determining entitlements to the Scheme Consideration, SILK will maintain the Register in its form as at the Scheme Record Date until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- (i) all statements of holding for Scheme Shares will cease to have any effect as documents relating to title in respect of those shares; and
- (ii) each entry on the Register will cease to have effect, other than as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

Step 6. Implementation Date

Pursuant to the Deed Poll, API must, no later than 12 noon on the day that is the Business Day before the Implementation Date, pay or procure the payment into an Australian dollar denominated trust account, operated by SILK as trustee for the Scheme Shareholders for the purpose of paying the cash component of the Scheme Consideration to Scheme Shareholders, an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders.

On the Implementation Date (which is expected to occur on Wednesday, 29 November 2023):

- (a) each Scheme Shareholder will be paid or sent the Scheme Consideration from the trust account operated by SILK; and
- (b) once the Scheme Consideration has been provided, the Scheme Shares will be transferred to API, without the Scheme Shareholders needing to take any further action, and the Register will be updated so that API is listed as the holder of all the Scheme Shares.

Details about the funding of the Scheme Consideration are set out in Section 6.6 of this Scheme Booklet.

SILK Shareholders who are current or former SILK Group employees or officers and who have an amount owing under a limited recourse loan agreement with a member of the SILK Group should have regard to Section 3.13 regarding repayment of those loans.

3.12 DEEMED WARRANTIES BY SCHEME SHAREHOLDERS

The Scheme provides that each Scheme Shareholder is taken to have warranted to SILK and API, and appointed and authorised SILK as its attorney and agent to warrant to API, on the Implementation Date that:

- (a) all of the Scheme Shares they hold (including any rights and entitlements attaching to those Scheme Shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all:
 - (i) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of Section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (ii) restrictions on transfer of any kind;
- (b) the Scheme Shareholder has full power and capacity to transfer the Scheme Shares they hold to API together with any rights and entitlements attaching to those Scheme Shares;
- (c) all of their Scheme Shares which are transferred to API under the Scheme will, on the date on which they are transferred to API, be fully paid; and
- (d) they have no existing right to be issued any other Scheme Shares, any other form of SILK Shares, options exercisable into SILK Shares, SILK convertible notes or any other SILK securities.

3.13 REPAYMENT OF EMPLOYEE SHARE SCHEME LOANS

Under the terms of an employee share scheme implemented prior to SILK's initial public offer, a Subsidiary in the SILK Group entered into limited recourse loan agreements with a number of employees and directors of the SILK Group, including Mr Boris Bosnich, Mr Martin Perelman and Mr Ivan Jacques.

The Scheme provides that in respect of any Scheme Shareholder to which SILK or one of its Subsidiaries has provided a loan for the purpose of their acquisition of Scheme Shares (or their acquisition of any shares in a subsidiary of SILK which were exchanged for Scheme Shares) and that loan remains outstanding as at the Implementation Date, the obligation of API to pay Scheme Consideration will be satisfied by SILK paying from the trust account into which API has deposited the Scheme Consideration:

- (a) to SILK or its Subsidiary (as applicable) the portion of the Scheme Consideration equal to the aggregate amount of the loan which SILK or its Subsidiary (as applicable) is owed by that Scheme Shareholder (in satisfaction of that outstanding loan); and
- (b) as to the balance (if any) of the Scheme Consideration payable to that Scheme Shareholder under the Scheme, to that Scheme Shareholder in accordance with the terms of the Scheme.

3.14 DELISTING FROM ASX

On or after the Implementation Date, SILK will apply for termination of the official quotation of SILK Shares on ASX, and for SILK to be removed from the official list of ASX, with effect from the close of trading on the Business Day immediately following the Implementation Date.

04 What you Should do and How to Vote at the Scheme Meeting

4.1 WHAT YOU SHOULD DO

(a) Carefully read and consider this Scheme Booklet

You should carefully read this Scheme Booklet in its entirety before deciding whether to vote in favour of the Scheme.

If you have any questions about this Scheme Booklet or the Scheme, please contact the SILK Shareholder Information Line on 1300 429 201 (within Australia) or +61 2 7208 4523 (outside Australia) between 8.30am and 5.00pm (Sydney time) Monday to Friday, excluding public holidays.

As noted elsewhere in this document, this Scheme Booklet does not take into account the investment objectives, financial situation and particular needs of any individual SILK Shareholder.

If you require further advice in relation to the Scheme, contact your legal, financial, taxation or other professional adviser.

(b) Consider the reasons to vote for or against the Scheme

SILK Shareholders should refer to Sections 1.2 and 1.3 of this Scheme Booklet for further guidance on the reasons to vote for and against the Scheme.

Answers to various frequently asked questions about the Scheme are set out in Section 2 of this Scheme Booklet.

(c) Your shareholder details with the Share Registry

SILK Shareholders should ensure their personal contact and bank account details are up to date in the records held by the Share Registry or in their trading account.

4.2 YOUR VOTE IS IMPORTANT

For the Scheme to proceed, the Scheme Resolution must be approved by the Requisite Majorities at the Scheme Meeting.

The SILK Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders.

The SILK Directors recommend that you complete and return a proxy form by post, email or fax to the Share Registry, or lodge your proxy form online at www.investorvote.com.au, in accordance with the instructions on that form.

4.3 DETAILS OF THE SCHEME MEETING

The Scheme Meeting is scheduled to be held at 10.30am Sydney time (10.00am Adelaide time) on Friday, 10 November 2023 at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000.

Details about the Scheme Meeting are set out in the Notice of Scheme Meeting contained in Annexure D of this Scheme Booklet.

4.4 ENTITLEMENT TO VOTE

Each SILK Shareholder who is registered on the Register at 7.00pm (Sydney time) on Wednesday, 8 November 2023 is entitled to attend and vote at the Scheme Meeting.

In the case of jointly held SILK Shares, only one of the joint shareholders is entitled to vote. If more than one SILK Shareholder votes in respect of jointly held SILK Shares, only the vote of the SILK Shareholder whose name appears first in the Register will be counted.

Details about the permitted methods of voting are set out in Section 4.5 and in the Notice of Scheme Meeting contained in Annexure D of this Scheme Booklet.

4.5 HOW TO VOTE

Voting on the Scheme Resolution will be conducted by way of a poll.

If you are a SILK Shareholder entitled to vote at the Scheme Meeting, you may vote:

- **in person:** by attending the Scheme Meeting and voting in person;
- **by proxy:** by appointing one or two proxies to attend the Scheme Meeting and vote on your behalf, by completing and returning a proxy form by post, email or fax, or by lodging your proxy form online at www.investorvote.com.au in accordance with the instructions on that form;
- **by attorney:** by appointing an attorney to attend the Scheme Meeting and vote on your behalf, using a duly executed power of attorney; or
- **by corporate representative:** in the case of a body corporate, appointing a body corporate representative to attend the Scheme Meeting and vote on your behalf, using a duly executed certificate of appointment of body corporate representative.

Further information on how to vote using each of these methods is contained in the Notice of Scheme Meeting attached as Annexure D to this Scheme Booklet.

If you are in favour of the Scheme, you should vote in favour of the Scheme Resolution at the Scheme Meeting.

The Scheme will not be implemented unless the Scheme Resolution is approved by the Requisite Majorities of SILK Shareholders.

05 Information relating to SILK

5.1 INTRODUCTION AND BUSINESS OVERVIEW

SILK is one of Australia's largest specialist clinic networks, offering a range of non-surgical aesthetic products and services by registered nurses and trained professionals in clinics and the sale of owned brand skincare products.

SILK's principal activities consist of:

- Franchisor of clinics providing premium non surgical aesthetics services, including laser hair removal, non-invasive cosmetic injections, skin treatments, body contouring treatments and the retail sale of skincare products.
- Operator of corporate and majority owned clinics providing premium non surgical aesthetics services, including laser hair removal, non invasive cosmetic injections, skin treatments, body contouring and the retail sale of skincare products.
- Distribution and sale of proprietary skincare products and other related products.

SILK's mission is to provide skin and body treatments and services to help its clients feel good about themselves. SILK aims to achieve the highest quality results for its clients by using advanced medical devices at affordable prices.

History of SILK

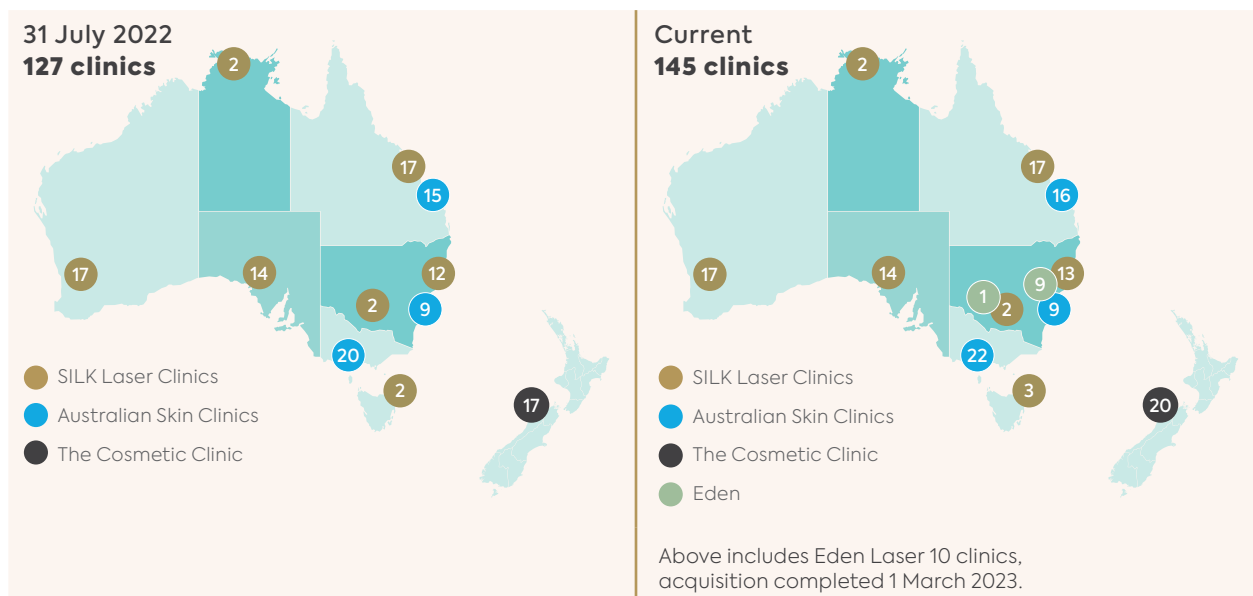
Calendar year	Highlight
2009	The SILK business was co founded by CEO Martin Perelman. The SILK business initially focused on laser hair removal, although has continually broadened its offering to include more specialised services designed to increase client longevity with the SILK business.
2018	The Advent Fund acquired 67% of the equity in the SILK business, providing capital to improve and grow the network of clinics of the SILK business.
2020	SILK listed on the Australian Securities Exchange.
2021	SILK acquired the Australian Skin Clinics Group (ASC) on 1 September 2021. ASC comprised 55 non-surgical aesthetics clinics, consisting of 49 traditional franchises (including 14 in New Zealand trading under the brand name of The Cosmetic Clinic (TCC)) with the remainder joint venture clinics and corporate clinics.
2022	SILK acquired the business and assets of Unique Laser Clinics, which comprised four franchised clinics and a corporate clinic in Victoria. Post acquisition, SILK converted the corporate clinic to a joint venture clinic, with the other clinics remaining traditional franchises.
2023	SILK acquired Eden Laser Clinics Pty Ltd and subsidiaries (Eden) in New South Wales and the Australian Capital Territory, comprising 10 non-surgical aesthetics clinics, with nine corporate clinics and one joint venture clinic.

5.2 OVERVIEW OF SILK'S OPERATIONS

(a) SILK clinic network

SILK currently has 145 clinics¹¹ in its network throughout Australia and New Zealand, with 72 clinics that are either corporate clinics (i.e. 100% owned by SILK) or operated as a joint venture and 73 traditional franchise clinics.

SILK will continue to evaluate organic growth and M&A opportunities as it continues to execute against its targeted network plan.



* The reference to 145 clinics is current as at 30 September 2023.

(b) SILK's ownership model

SILK operates three different clinic ownership models: corporate, joint venture and traditional franchise. The variety in ownership structures provides flexibility with respect to different locations and clinic size.

SILK offers cosmetic injectable nurses and other key talent the opportunity to franchise SILK clinics (under the joint venture and traditional franchise ownership models). SILK has generally found having franchise partners as partial owners of the business in which they work provides more motivation to deliver quality client service, which in turn assists with establishing lasting, recurring relationships with clients.

11. As at 30 September 2023.

05 Information relating to SILK continued

Summary of clinic ownership and accounting

	Corporate 100% SILK owned	Joint Venture SILK majority owned	Associate/JV 50 50% or less SILK owned	Traditional clinics No SILK ownership	TOTAL
Description	<ul style="list-style-type: none"> • Model used to enter new markets • Enables SILK to extract maximum profits and synergies from attractive markets • Ability to execute the opening of a new site faster than the other two models to take advantage of opportunities without franchise partners 	<ul style="list-style-type: none"> • SILK receives franchisor economics and profit share 		<ul style="list-style-type: none"> • Model mainly adopted in regional towns and locations with smaller catchments 	
How is economic return captured?	<ul style="list-style-type: none"> • Consolidated in accounts • Franchise fees and intercompany sales are eliminated in consolidation • 100% consolidated 	<ul style="list-style-type: none"> • Consolidated in accounts • Franchise fees and intercompany sales are eliminated in consolidation • 100% consolidated, with Non-controlling interest removed from the NPAT 	<ul style="list-style-type: none"> • Franchise and management fees paid to SILK • Margin on sale of skincare, injectables and other items • Equity accounted: share of increase in equity; ASC 50/50 joint ventures are partnerships and share of net profit or loss is included in consolidation 	<ul style="list-style-type: none"> • Franchise fees paid to SILK • Margin on sale of Skincare, injectables and other items 	

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	Corporate 100% SILK owned	Joint Venture SILK majority owned	Associate/JV 50 50% or less SILK owned	Traditional clinics No SILK ownership	TOTAL
How is each type of clinic funded?	<ul style="list-style-type: none"> • 100% by SILK • SILK currently provides all of the finance 	<ul style="list-style-type: none"> • Usual arrangement is 75% SILK, 25% with JV partner, but sometimes JV partner has more than 25% • SILK may provide vendor loan to JV partner. Loans to the 75/25 joint venture entity are netted out on consolidation 	<ul style="list-style-type: none"> • 50/50 with JV partner • SILK may provide equipment finance and may provide vendor loan to JV partner 	<ul style="list-style-type: none"> • 100% by franchisee • SILK does not finance traditional franchisees 	
Number of clinics at 30 June 2023	• 30	• 17	• 25	• 73	• 145
Network sales (Traditionals on cash basis) (30 June 2023)	• \$30.8m	• \$22.1m	• \$41.5m	• \$105.4m	• \$199.7m
Adjusted EBITDA % (30 June 2023)¹²	• 15%	• 14%	• 17%	• N/A	• N/A

(c) Product and services offering

SILK offers a range of specialist products and services designed to cater for the evolving aesthetic preferences of clients. SILK utilises the latest technology to provide advanced non-surgical aesthetic solutions to its clients and offers owned brand skincare products aimed at maximising treatment outcomes. In particular, SILK focuses predominantly on cosmeceutical-grade products which usually have active ingredients that seek to provide superior results over traditional beauty products that do not contain such ingredients.

SILK's five core offerings comprise laser hair removal (**Laser Hair Removal**), cosmetic injectables (**Inject**), skin treatments (**Skin**), body contouring and fat reduction services (**Body**) and owned brand skincare products (**Product**).

The majority of SILK's revenue comes from performing services in clinic. This provides protection against disintermediation from online retail given services cannot be performed online.

The table below outlines each of SILK's products and services in further detail.

12. 'Adjusted EBITDA %' is the total Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) in each respective clinic ownership category as a percentage of 'Network sales' in each respective clinic ownership category.

05 Information relating to SILK continued

SILK product/service overview



	Laser Hair Removal	Inject	Skin	Body	Product
Key product/service offering	<ul style="list-style-type: none"> Professional treatment plans for unwanted facial and body hair using medical grade laser 	<ul style="list-style-type: none"> Range of anti-wrinkle and dermal filler injections prescribed and administered by health practitioners (doctors and registered nurses) 	<ul style="list-style-type: none"> Range of treatments and advanced technologies to address a broad range of skin conditions and concerns Services include micro-dermabrasion, dermal peels, microneedling, laser pigmentation removal and LED 	<ul style="list-style-type: none"> Non-invasive fat reduction and body contouring services CoolSculpting machine is aimed at fat reduction which works by cryolipolysis (destruction of fat cells through freezing) EmSculpt machine is aimed at body contouring which works by using high intensity focused electro-magnetic energy to induce muscle contractions with one session the equivalent of 20,000 crunches 	<ul style="list-style-type: none"> Skincare offering incorporates SILK's own brand with the Aesthetics RX brand to maximise treatment outcomes Includes post-treatment products and a range of other facial products

5.3 SILK STRATEGIC DIRECTION

The key elements of SILK's growth strategy include:

(a) Continued network growth

Organic growth and various M&A opportunities continue to be evaluated against SILK's targeted network plan. When considering a prospective acquisition, SILK considers whether the target has the ability to integrate with SILK's branding, operating strategy and organisational culture.

(b) Changing ownership models

There is an opportunity to convert current traditional franchises to joint venture clinics to own a larger portion of the existing clinic network, notably buying back traditional franchises into joint ventures.

(c) Integration of recent acquisitions

SILK is completing the integration of Eden Laser Clinics with SILK's business. In FY23, SILK sold one corporate clinic to a traditional franchise owner. SILK is also continuing to consider franchising opportunities.

(d) Further investment in systems to drive efficiency

SILK is completing a major investment program in its systems and related IT infrastructure. This will ensure that SILK maintains consistently high standards of customer service across the SILK Group, and has improved data support decision making.

5.4 SILK BOARD AND SENIOR MANAGEMENT

(a) SILK Board

As at the date of this Scheme Booklet, the SILK Board comprises:

Name	Position
Mr Boris Bosnich	Chairman and Independent Non-Executive Director
Mr Martin Perelman	Chief Executive Officer and Managing Director
Ms Jacinta Caithness	Independent Non-Executive Director
Ms Sinead Ryan	Independent Non-Executive Director
Mr Andrew Cosh	Independent Non-Executive Director

Biographies of the SILK Board are available on SILK's website at <https://silklaser.com.au/investors/corporate-governance/>.

(b) Senior management

As at the date of this Scheme Booklet, SILK's executive key management personnel are:

Name	Position
Mr Martin Perelman	Chief Executive Officer and Managing Director
Mr Darryl Cotter	Chief Operating Officer
Mr Ivan Jacques	Chief Financial Officer

05 Information relating to SILK continued

5.5 SILK SECURITIES AND CAPITAL STRUCTURE

(a) SILK securities on issue

As at the Last Practicable Date, the capital structure of SILK comprises the following securities.

Type of security	Number on issue
SILK Shares	53,121,177
SILK Performance Rights	638,348

No other securities in SILK were on issue as at the Last Practicable Date.

SILK does not anticipate that it will be required to issue any SILK Shares before the Implementation Date. See Section 9.2 for the intended treatment of the SILK Performance Rights in connection with the Scheme. It is expected that, as at the Scheme Record Date, a maximum of 53,121,177 SILK Shares will be on issue.

(b) Substantial shareholders

Based on publicly available information, as at the Last Practicable Date, SILK had received notifications from the following substantial shareholders and their associates in accordance with section 671B of the Corporations Act.¹³

Name	Number of SILK Shares	Percentage shareholding ¹⁴
Advent Partners 2 Fund, LP Advent Partners Pty Ltd ¹⁵	6,640,305	12.83%
FIL Investment Management (Australia) Limited and FIL Responsible Entity (Australia) Limited ¹⁶	5,267,767	9.94%
Harvest Lane Asset Management Pty Ltd ¹⁷	3,633,261	6.84%
Samson Rock Capital LLP, Samson Rock Event Driven Master Fund Limited and Samson Rock Event Driven Fund Limited ¹⁸	3,996,991	7.52%
Martin Perelman Nominees Pty Ltd as trustee for M Perelman Investment Trust ¹⁹	2,813,398	5.30%

The interests listed in this Section 5.5(b) are as disclosed to SILK in substantial holding notices or change of director's interest notices in accordance with the Corporations Act and ASX Listing Rules. Information in respect of substantial holdings arising, changing or ceasing after the Last Practicable Date or in respect of which the relevant announcement is not available on ASX's website is not included in this Section 5.5(b).

13. The information contained in the table below is extracted directly from notices that SILK has received from substantial shareholders and their associates in accordance with section 671B of the Corporations Act.

14. % shareholding based on number of SILK Shares on issue on the Last Practicable Date.

15. As described in the Notice of change of interests of substantial holder lodged with the ASX on 30 August 2021.

16. As described in the Notice of change of interests of substantial holder lodged with the ASX on 15 December 2021.

17. As described in the Notice of change of interests of substantial holder lodged with the ASX on 4 September 2023.

18. As described in the Notice of change of interests of substantial holder lodged with the ASX on 21 September 2023.

19. As described in the Change of Director's Interest Notice lodged with the ASX on 31 March 2023.

5.6 HISTORICAL FINANCIAL INFORMATION

This Section 5.6 contains a summary of historical audited consolidated financial information relating to SILK for the financial years ended 30 June 2021, 30 June 2022 and 30 June 2023. This information has been prepared and extracted for the purposes of this Scheme Booklet only.

The historical audited consolidated financial information of SILK presented in this Scheme Booklet is in an abbreviated form and does not contain all the disclosures, presentation, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. Accordingly, SILK recommends that SILK Shareholders read the following in conjunction with the audited consolidated financial statements of SILK for the respective periods including the description of the significant accounting policies contained in those financial statements and the notes to those financial statements.

The full financial accounts of SILK, including all notes to those accounts, can be found in:

- the SILK Appendix 4E and preliminary financial report for the year ended 30 June 2021 (released to the ASX on 25 August 2021) and audited financial report for the year ended 30 June 2021 (released to the ASX on 29 September 2021);
- the SILK Appendix 4E and preliminary financial report for the year ended 30 June 2022 (released to the ASX on 30 August 2022) and audited financial report for the year ended 30 June 2022 (released to the ASX on 29 September 2022); and
- the SILK Appendix 4E and audited financial report for the year ended 30 June 2023 (released to the ASX on 30 August 2023).

These documents are available on SILK's website at <https://silklaser.com.au/investors/> and on ASX's website at www.asx.com.au.

(a) Basis of preparation

The historical financial information of SILK has been prepared in accordance with Australian Accounting Standards. The historical audited consolidated financial information in this Scheme Booklet is presented on a standalone basis and accordingly does not reflect any impact of the Scheme.

(b) Consolidated statement of profit or loss and other comprehensive income

The following table presents the historical consolidated statement of profit or loss and other comprehensive income for the financial years ended 30 June 2021, 30 June 2022 and 30 June 2023.

05 Information relating to SILK continued

Consolidated statement of profit or loss and other comprehensive income

In thousands of AUD	Year ended 30 June		
	FY23	FY22	FY21
Revenue			
Trading sales	79,928	67,767	53,303
Cost of sales	(26,506)	(20,745)	(14,440)
Gross profit	53,422	47,022	38,863
Franchise revenue	17,680	13,555	5,575
Other Income	2,020	1,861	2,692
Share of Profits of Associates	773	628	776
Employee benefits expense	(32,677)	(27,301)	(20,463)
Occupancy costs	(1,341)	(1,465)	(931)
Marketing expenses	(5,632)	(5,016)	(2,701)
Other expenses	(8,234)	(6,567)	(4,306)
IPO related expenses	(30)	(247)	(3,633)
Business combination expenses	(1,059)	(2,175)	(1,449)
Takeover advisory expenses	(1,114)	–	–
Systems investment – cloud based	(2,582)	(1,245)	–
Depreciation and amortisation expenses	(9,900)	(8,453)	(6,076)
Finance costs	(2,247)	(1,505)	(710)
Profit before income tax expense	9,079	9,092	7,637
Income tax expense	(1,998)	(2,703)	(2,485)
Profit after income tax expense for the year	7,081	6,389	5,152
Other comprehensive income for the year, net of tax	(56)	–	–
Total comprehensive income for the year	7,025	6,389	5,152
Profit for the year is attributable to:			
Non-controlling interest	(154)	1	134
Owners of SILK Laser Australia Limited	7,235	6,388	5,018
	7,081	6,389	5,152
Total comprehensive income for the year is attributable to:			
Non-controlling interest	(154)	1	134
Owners of SILK Laser Australia Limited	7,179	6,388	5,018
	7,025	6,389	5,152

	Cents	Cents	Cents
Basic earnings per share	13.62	12.10	11.81
Diluted earnings per share	13.57	12.03	11.49

SILK Annual Reports 2021 – 2022: <https://silklaser.com.au/investors/asx-announcements/>
 SILK FY23 Appendix 4E: <https://silklaser.com.au/investors/asx-announcements/>

(c) Commentary on FY23 financial information (as released to ASX on 30 August 2023)

The below is an extract of the commentary released to the ASX on 30 August 2023 when SILK released its audited financial report for the year ended 30 June 2023:

Key FY23 highlights (vs FY22): Network cash sales up 23% to \$199.7 million. Reported revenue up 20% to \$97.6 million. Adjusted EBITDA²⁰ up 13% to \$24.8 million. Statutory net profit after tax ('NPAT') up 11% to \$7.1 million. Adjusted NPAT²¹ up 17% to \$11.2 million. 145 clinics at 30 June 2023 (up from 127 at 30 June 2022, incl. the acquisition of 10 Eden clinics). Strong balance sheet with cash position of \$20.8 million, and net debt of \$9.1 million.

Commenting on SILK's FY23 results, SILK Laser Co-Founder and Chief Executive Officer and Managing Director Martin Perelman said: "SILK delivered solid results despite inflationary pressures increasing the cost of doing business. We successfully integrated ASC/TCC into the business and expanded our network further with the strategic acquisitions of Unique and Eden Laser. Through organic growth and strategic acquisitions, we have significantly strengthened our position in the non-surgical aesthetics market. The growth of our network has enabled our franchise partners to leverage the significant buying power achieved through scale while also benefiting from the efficiency and cost-effectiveness of centralised support functions."

Total network cash sales grew 23% to \$199.7 million in FY23 (21% growth to \$196.2m excl. Eden). Revenue was up 20% to \$97.6 million (16% growth to \$94.7m excl. Eden).

(d) Commentary on FY22 financial information (as released to ASX on 30 August 2022)

The below is an extract of the commentary released to the ASX on 30 August 2022 when SILK released its preliminary financial report for the year ended 30 June 2022:

Key FY22 highlights (vs FY21): Network cash sales up 91% to \$162.7 million. Reported revenue up 38% to \$81.3 million. Adjusted EBITDA²² up 27% to \$22.0 million. Statutory NPAT up 24% to \$6.4 million. Adjusted NPAT²³ up 27% to \$9.6 million. 127 SILK clinics across network at 31 July 2022 (up from 61 at 30 June 2021). Strong balance sheet with cash of \$18.6 million, and net debt of \$3.8 million.

SILK, one of Australia's largest specialist non-surgical aesthetics clinic networks, is pleased to announce its results for the 12 months ended 30 June 2022 (FY22), that saw the company continue to deliver on its growth strategy, increasing clinic numbers to 127, and exceeding FY22 earnings guidance.

Commenting on SILK's FY22 results, SILK Laser Co-Founder and Chief Executive Officer and Managing Director, Martin Perelman, said: "After operating in challenging market conditions this past year, I'm so proud at how hard the SILK team has worked to deliver these robust financial results. We continue to execute against SILK's growth strategy outlined at the time of our IPO, beating EBITDA guidance by 10% while diversifying our service mix with Injectables and Body proving to be our key growth drivers."

20. Adjusted FY23 EBITDA (earnings before interest, tax, depreciation and amortisation) follows statutory accounting and based on a post IFRS-16 basis but makes adjustments for income and expense items of a one-off nature, such as Business combination expenses, Takeover advisory expenses and major investments in cloud-based systems (where cannot be capitalised).
21. Adjusted FY23 NPAT (net profit after tax) reflects the same normalisation adjustments made in calculating Adjusted FY23 EBITDA.
22. Adjusted FY22 EBITDA follows statutory accounting and based on a post IFRS-16 basis but makes adjustments for income and expense items of a one-off nature, such as JobKeeper, and other government support related to COVID, Business combination expenses, IPO expenses and investment in cloud based systems.
23. Adjusted FY22 NPAT reflects the same normalisation adjustments made in calculating Adjusted FY22 EBITDA.

05 Information relating to SILK continued

Total FY22 total network cash sales was up 91% to \$162.7 million (SILK brand, excluding Australian Skin Clinics/The Cosmetic Clinic, 6% up overall, flat on a like-for-like (LFL) basis). Commenting on the result, Perelman said: “This is a pleasing result based on the 52% LFL growth SILK achieved in the prior year.”

(e) Commentary on FY21 financial information (as released to ASX on 25 August 2021)

The below is an extract of the commentary released to the ASX on 25 August 2021 when SILK released its preliminary financial report for the year ended 30 June 2021:

Key FY21 highlights (vs FY20): Network cash sales up 68% to \$85.1 million. Reported revenue up 82% to \$58.9 million. Pro forma EBITDA²⁴ up 180% to \$17.3 million, 8% above upgraded guidance of \$15–16 million. Underlying EBITDA²⁵ up 128% to \$14.8 million. Statutory NPAT up 123% to \$5.2 million. Pro forma NPAT²⁶ up 839% to \$7.5 million. Cash flow from operations up 125% to \$23.8 million. 11 new SILK clinics opened in FY21, together with agreed \$52 million acquisition of Australian Skin Clinics/The Cosmetic Clinic scaling Australian East Coast and New Zealand expansion efforts; takes the clinic footprint to 116. Strong balance sheet with net cash of \$44.1 million. Average customer spend increased 28% to \$605, reflecting strong growth in the injectables and body categories.

SILK, one of Australia’s largest specialist non-surgical aesthetics clinic networks, is pleased to announce its results for the 12 months ended 30 June 2021 (FY21), that saw SILK deliver on its growth strategy, increasing clinic numbers organically and through its agreed acquisition to 116 pro forma at 30 June 2021, and exceeding FY21 Prospectus forecasts and upgraded guidance.

Commenting on SILK’s FY21 results, SILK Laser Co-Founder and Chief Executive Officer and Managing Director, Martin Perelman, said: “The past 12 months have been a busy and highly successful period for SILK, and I am very proud of our first full year results delivered as a publicly listed company. Given the dedication and commitment of SILK’s employees, franchisees and joint venture partners, and our focus on excellence in customer service, all of SILK’s service categories performed in line or above expectations, and SILK is well-positioned to drive long term growth.”

Total FY21 reported revenue grew by 82% to \$58.9 million (FY20: \$32.3 million) reflecting exceptional LFL sales growth of 52% year-on-year, plus the addition of 11 recently opened clinics, ahead of the target range of 6–10. Operating cash flow was up 125% to \$23.8 million, representing 138% of pro forma EBITDA, a result which was underpinned by prepaid packages in Laser Hair and Skin treatments.

5.7 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following table presents the historical consolidated statement of financial position as at 30 June 2021, 30 June 2022 and 30 June 2023.

24. Pro Forma FY21 EBITDA is based on normalisation adjustments to remove the effect of expense items of a one-off nature, such as JobKeeper and other government support related to COVID-19, Business Combination expenses and IPO expenses.

25. Underlying FY21 EBITDA is calculated from pro forma EBITDA described above, but adjusted as follows:

Add:

- unearned revenues that have been received but not recognised as sales under AASB16 to reflect cash sales of treatment packages sold but not yet performed; and
- SILK’s 50% share of the EBITDA of its JV50 clinics, adjusted for unearned revenues received but not recognised and rent paid in respect of lease arrangements (i.e. the underlying EBITDA of the JV50s),

Deduct:

- the equity accounted profit included in EBITDA from JV50s;
- the 25% share of EBITDA from its JV75s, adjusted for unearned revenues received but not recognised; and
- rent paid in respect of lease arrangements.

26. Pro Forma FY21 NPAT reflects the same normalisation adjustments made in calculating Pro Forma FY21 EBITDA.

Consolidated statement of financial position

As at 30 June

In thousands of AUD	2023	2022	2021
Assets			
Current assets			
Cash and Cash Equivalents	20,789	18,601	44,673
Trade and Other Receivables	12,335	9,809	4,813
Inventories	5,499	5,340	2,979
Income Tax Receivable	1,606	–	–
Other Assets	307	547	289
Total current assets	40,536	34,297	52,754
Non-current assets			
Trade and Other Receivables	11,360	9,126	1,869
Investments in Associates	1,296	1,286	881
Property, Plant and Equipment	21,175	18,655	18,794
Right of Use Assets	12,722	10,834	11,382
Intangible Assets	94,810	83,881	27,918
Deferred Tax ²⁷	2,121	2,340	3,233
Other Assets	698	449	1,463
Total non-current assets	144,182	126,571	65,540
Total assets	184,718	160,868	118,294
Liabilities			
Current liabilities			
Trade and Other Payables	15,963	11,344	9,667
Contract Liabilities	12,974	9,531	9,311
Borrowings	29,925	–	–
Lease Liabilities	7,662	7,815	4,816
Income Tax Payable	–	891	3,329
Provisions	2,417	3,119	1,129
Total current liabilities	68,941	32,700	28,252

27. Deferred Tax is shown above on a net basis for 2021 – 2023, consistent with the presentation in SILK's FY23 Appendix 4E. Note that in SILK's 2022 and 2021 Annual Reports, Deferred Tax was presented on a gross basis and included both a Deferred Tax Asset and Deferred Tax Liability.

05 Information relating to SILK continued

In thousands of AUD	As at 30 June		
	2023	2022	2021
Non-current liabilities			
Contract Liabilities	230	284	150
Borrowings	–	22,386	–
Lease Liabilities	17,727	14,992	11,583
Provisions	1,375	1,226	654
Total non-current liabilities	19,332	38,888	12,387
Total liabilities	88,273	71,588	40,639
Net assets	96,445	89,280	77,655
Equity			
Share Capital	79,298	78,884	73,746
Foreign Currency Translation Reserve	(56)	–	–
Share-Based Payments Reserve	454	485	425
Retained profits	17,173	9,938	3,550
Equity attributable to the owners of SILK Laser Australia Limited	96,869	89,307	77,721
Non-controlling interest	(424)	(27)	(66)
Total equity	96,445	89,280	77,655

SILK Annual Reports 2021 – 2022: <https://silklaser.com.au/investors/asx-announcements/>
 SILK FY23 Appendix 4E: <https://silklaser.com.au/investors/asx-announcements/>

(a) Consolidated statement of cash flows

The following table presents the historical consolidated statement of cash flows for the financial years ended 30 June 2021, 30 June 2022 and 30 June 2023.

In thousands of AUD	Year ended 30 June		
	2023	2022 ²⁸	2021
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	101,724	91,927	60,425
Receipts from Government Grants	–	–	1,952
Payments to suppliers and employees (inclusive of GST)	(78,899)	(73,883)	(35,368)
Interest received	1,197	707	268
Income tax paid	(5,192)	(7,812)	(1,342)
Interest paid (AASB 16)	(1,156)	(1,070)	(672)
Interest paid	(1,091)	(435)	(38)
Net cash from operating activities	16,583	9,434	25,225

28. Statement of cash flows shown above for 30 June 2022 has been updated to be consistent with the presentation in SILK's FY23 Appendix 4E. Note that in SILK's 2022 Annual Report the statement of cash flows had differences in presentation.

Cash flows from operating activities

Year ended 30 June

In thousands of AUD	2023	2022 ²⁸	2021
Cash flows from investing activities			
Payments for property, plant and equipment	(6,831)	(3,068)	(10,461)
Payments for intangibles	(534)	(245)	(56)
Receipts from cash held in guarantee deposits	257	1,463	(430)
Loan advances to associates	(1,742)	(2,337)	–
Takeover advisory expenses	(1,114)	–	–
Systems Investment Program – Cloud based	(2,582)	(1,245)	–
Acquisition of ASC, net of cash acquired	–	(45,350)	–
Acquisition of EDEN, net of cash acquired	(6,416)	–	–
Acquisition of other Business Combinations, net of cash acquired	(777)	(2,148)	(338)
Business combination expenses	(1,059)	(2,175)	(1,449)
Proceeds from disposal of property, plant and equipment	834	821	1,646
Dividends received	1,185	319	59
Proceeds from Sale of Subsidiaries (Net of cash disposed)	535	394	–
Proceeds from Sale of Shares (Change in controlling interest)	650	–	–
Net cash used in investing activities	(17,594)	(53,571)	(11,029)
Cash flows from financing activities			
Proceeds from call on shares	–	–	3,960
Proceeds from issue of shares – IPO related	–	–	20,205
Share issue transaction costs – IPO	–	–	(6,758)
Payments for Pre-IPO capital return	–	–	(5,400)
Payments of Pre-IPO dividend	–	–	(1,500)
Proceeds from issue of shares – Share placement	–	–	20,000
Payment of Transaction costs – Share placement	–	–	(2,029)
Proceeds from loans with related parties	–	–	1,451
Dividends paid to minority interests	(213)	(78)	–
Proceeds from principal and interest portion of sub-leases	5,157	3,711	–
Repayment of principal portion of lease liabilities	(9,939)	(7,733)	(4,057)
Repayment of borrowings	–	(569)	–
Proceeds from borrowings	7,539	22,386	–
Proceeds from Employee Share Scheme loans	65	228	–
Lease Incentives Received	590	120	–
Net cash from financing activities	3,199	18,065	25,872
Net increase/(decrease) in cash and cash equivalents	2,188	(26,072)	40,068
Cash and cash equivalents at the beginning of the financial year	18,601	44,673	4,605
Cash and cash equivalents at the end of the financial year	20,789	18,601	44,673

SILK Annual Reports 2021 – 2022: <https://silklaser.com.au/investors/asx-announcements/>
 SILK FY23 Appendix 4E: <https://silklaser.com.au/investors/asx-announcements/>

5.8 MATERIAL CHANGES IN SILK'S FINANCIAL POSITION

Other than:

- the accumulation of profits in the ordinary course of trading;
- as disclosed in this Scheme Booklet; or
- as disclosed to ASX by SILK,

to the knowledge of the SILK Directors, the financial position of SILK has not changed materially since 30 June 2023, being the last date of the period to which the financial statements for the financial year ended 30 June 2023 relate.²⁹

Copies of SILK's periodic reports (including the SILK Appendix 4E and audited financial report for the year ended 30 June 2023) can be obtained from SILK's website at <https://silklaser.com.au/investors/> and ASX's website at www.asx.com.au.

5.9 INTENTIONS REGARDING THE CONTINUATION OF SILK'S BUSINESS

The Corporations Regulations require a statement by the SILK Directors of their intentions regarding SILK's business.

(a) If the Scheme is implemented

If the Scheme is implemented, API has stated that it intends to reconstitute the SILK Board as appropriate for an entity which is a wholly owned Subsidiary of API.

It is for the reconstituted SILK Board to determine its intentions as to:

- the continuation of the business of SILK or how the existing business will be conducted;
- any major changes to be made to the business of SILK; or
- the future employment of the present employees of SILK.

API's intentions if the Scheme is implemented are set out in Section 6.7 of this Scheme Booklet.

(b) If the Scheme is not implemented

If the Scheme is not implemented, the SILK Directors intend to continue to operate SILK in the ordinary course of business and for SILK to remain listed on the ASX.

If the Scheme is not implemented, SILK will continue to operate on a standalone basis and maintain its ASX listing. As such, SILK will remain listed on the ASX and you will retain your SILK Shares. While it is not possible to predict the future performance of SILK, in deciding whether or not to vote in favour of the Scheme Resolution, you should have regard to the prospects of SILK on a standalone basis (that is, if the Scheme is not implemented) and the risks relating to SILK's business (refer to Sections 7.2 and 7.3 for a summary of those risks).

Some possible implications of the Scheme not being implemented are:

- SILK Shareholders will retain their SILK Shares and they will not be acquired by API;
- SILK Shareholders will not receive the Scheme Consideration or any Special Dividend;
- SILK will, in the absence of another proposal, continue to operate as a standalone company listed on the ASX and, as such, SILK Shareholders will be exposed to the risks relating to SILK's business (refer to Sections 7.2 and 7.3 for a summary of those risks); and
- if no Superior Proposal is received by the SILK Board, then the SILK Share price may fall.

²⁹ Statement of cash flows shown above for 30 June 2022 has been updated to be consistent with the presentation in SILK's FY23 Appendix 4E. Note that in SILK's 2022 Annual Report the statement of cash flows had differences in presentation.

SILK estimates that, if the Scheme is not implemented, SILK will be required to pay one-off external Transaction Costs of approximately \$2.4 million (excluding GST and disbursements and any Break Fee that may be payable to API). This includes the following amounts:

- fees and expenses paid or payable to SILK's professional advisers (including its financial, legal, accounting and tax advisers) of approximately \$2.0 million (excluding GST);
- fees paid or payable to the Independent Expert estimated at \$150,000 (excluding GST); and
- Share Registry costs, fees and expenses associated with the Court proceedings, costs relating to design, printing and dispatch of this Scheme Booklet, expenses associated with convening and holding the Scheme Meeting, fees related to proxy solicitation services, and other general and administrative expenses in connection with the Scheme, of approximately \$300,000 in aggregate (excluding GST).

The payment of these external Transaction Costs would adversely affect the cash balance of SILK.

If the Scheme is not implemented, SILK's strategy, as outlined in Section 5.3, will remain unchanged. The SILK Board plans to continue with the business, financial, and operating plans established prior to the date of the Scheme Implementation Deed.

5.10 RECENT SILK SHARE PRICE PERFORMANCE

SILK Shares are listed on ASX under the ASX code 'SLA'.

As at 19 April 2023, being the last trading day for SILK Shares prior to the announcement of the API Initial Proposal on 19 April 2023:

- the closing price for SILK Shares on ASX was \$2.42;
- the highest recorded daily closing price for SILK Shares on ASX in the previous three months was \$2.42 on 19 April 2023; and
- the lowest recorded daily closing price for SILK Shares on ASX in the previous three months was \$1.62 on 15 February 2023.

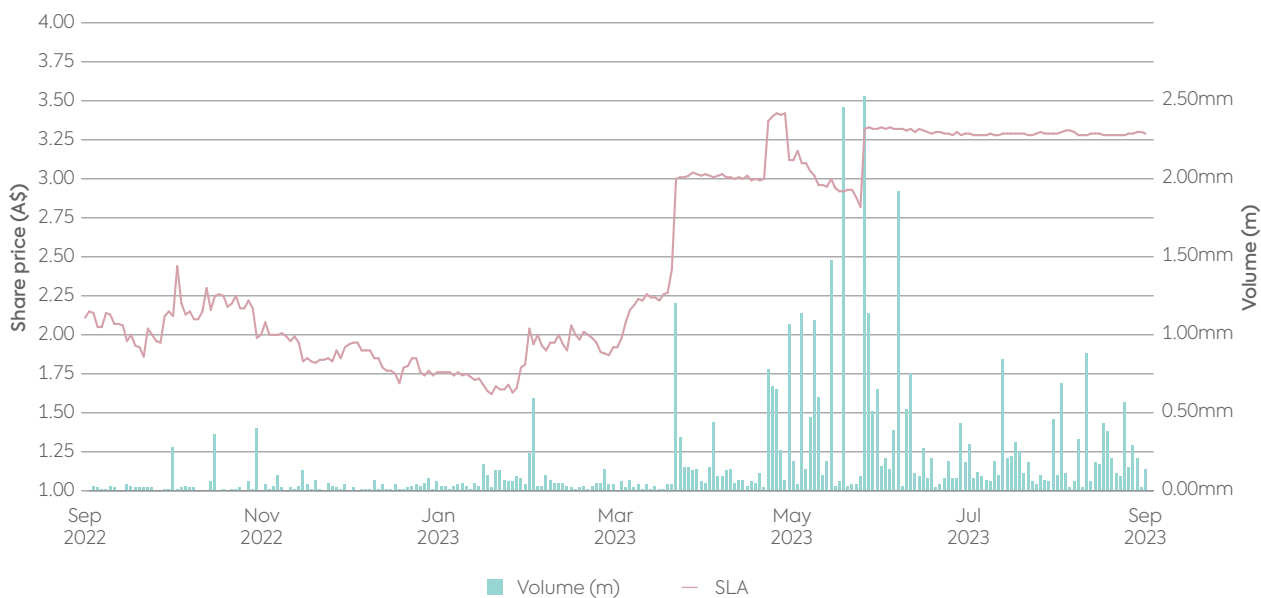
On 23 June 2023, being the last trading day for SILK Shares prior to the announcement of entry into the Scheme Implementation Deed, the closing price for SILK Shares on ASX was \$2.82. From announcement of entry into the Scheme Implementation Deed to Wednesday, 27 September 2023 (being the Last Practicable Date), the closing SILK Share price on ASX has ranged from \$3.28 to \$3.33.

In the three months up to the Announcement Date (being 26 March 2023 up to 26 June 2023):

- the highest recorded daily closing price for SILK Shares on ASX was \$3.42 on 25 May 2023 and 29 May 2023; and
- the lowest recorded daily closing price for SILK Shares on ASX was \$1.87 on 27 March 2023.

05 Information relating to SILK continued

The chart below shows the SILK Share price and trading volume over the 12 months before the Last Practicable Date (Wednesday, 27 September 2023):



5.11 PUBLIC INFORMATION AVAILABLE FOR INSPECTION

SILK is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Broadly, these require SILK to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. SILK is also required to prepare and lodge with ASIC and ASX both annual and half-year financial statements.

Further announcements concerning SILK will continue to be made available on ASX's website after the date of this Scheme Booklet until the Scheme is implemented.

Copies of the documents filed with ASX may be obtained from ASX's website at www.asx.com.au and SILK's website at <https://silklaser.com.au/investors/>. Copies of the documents lodged with ASIC in relation to SILK may be obtained from, or inspected via, ASIC's online registry portal ASIC Connect at asicconnect.asic.gov.au or connectonline.asic.gov.au including at ASIC's self-service kiosks at ASIC's service centres.

06 Information about API

6.1 INTRODUCTION

This Section 6 forms part of the API Information and has been prepared by, and is the responsibility of, API. This Section 6 contains information relating to API and the Wesfarmers Group and outlines how API is funding the Scheme Consideration and API's intentions in relation to SILK.

6.2 OVERVIEW OF THE WESFARMERS GROUP

From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies and private sector employers. With headquarters in Perth, Wesfarmers' diverse businesses today span: home improvement, outdoor living products and supply of building materials; general merchandise and apparel; office and technology products; health, beauty and wellbeing products and services; management of a retail subscription program and shared data asset; wholesale distribution of pharmaceutical goods; manufacturing and distribution of chemicals and fertilisers; development of an integrated lithium project, including mine, concentrator and refinery; industrial and safety product distribution; gas processing and distribution; and management of the Wesfarmers Group's investments.

Wesfarmers listed on the ASX in 1984. For the financial year ended 30 June 2023, Wesfarmers' revenue from continuing operations was \$43.5 billion and NPAT was \$2.5 billion.

Please see below an overview of Wesfarmers' diverse portfolio of businesses

Bunnings Group



Bunnings Group is the leading retailer of home improvement and outdoor living and building products in Australia and New Zealand. Bunnings' network of 513 locations includes warehouses, trade centres, Tool Kit Depot stores and Beaumont Tile stores. Bunnings Group employs more than 52,000 team members.



Kmart Group



Kmart Group comprises Kmart and Target and operates 449 stores across Australia and New Zealand, employing around 50,000 team members in Australia, New Zealand and key sourcing markets.



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06 Information about API continued

Chemicals, Energy and Fertilisers



Chemicals, Energy and Fertilisers manages nine businesses in Australia and employs almost 1,500 team members across its production and distribution facilities and support offices.



Officeworks



Officeworks is Australia's leading retailer and supplier of office products and solutions for small and medium-size businesses, students and households, operating through a nationwide network of 166 stores. Officeworks employ more than 9,000 team members.



Industrial and Safety



Industrial and Safety operates three main businesses, spanning safety products, industrial and corporate workwear, and industrial and medical gases. Industrial and Safety employs approximately 3,600 team members.



Health



The Health division was formed in March 2022, with the acquisition of API, one of Australia's leading health and beauty companies. The Health division includes 76 company-owned Priceline stores, 390 Priceline pharmacy franchise stores and 92 Clear Skincare clinics and is also a wholesale distributor of pharmaceutical goods. The division employs more than 3,000 team members.



OneDigital



Established in 2022, OneDigital brings together the Group's digitally native businesses, including the OnePass membership program, the Catch marketplace, and the Group data asset. OneDigital powers the Group's data and digital growth ambitions and provides customers with a more seamless, rewarding and valuable omnichannel experience across the Group's retail businesses. The division employs about 600 team members.



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Other activities

Wesfarmers is an investor in Flybuys, the BWP Trust, Gresham Partners and Wespine Industries.



6.3 WESFARMERS BOARD AND MANAGEMENT

(a) Wesfarmers board

The table below sets out the directors of Wesfarmers, including their position and tenure as at the date of this Scheme Booklet:

Name	Position	Tenure
Michael Chaney AO	Chairman	Director since June 2015 and Chairman since November 2015
Rob Scott	Managing Director and Chief Executive Officer, Wesfarmers	Director since November 2017
Vanessa Wallace	Non-Executive Director	Director since July 2010
Jennifer Westacott AO	Non-Executive Director	Director since April 2013
The Right Honourable Sir Bill English KNZM	Non-Executive Director	Director since April 2018
Mike Roche	Non-Executive Director	Director since February 2019
Sharon Warburton	Non-Executive Director	Director since August 2019
Anil Sabharwal	Non-Executive Director	Director since February 2021
Alison Watkins AM	Non-Executive Director	Director since September 2021
Alan Cransberg	Non-Executive Director	Director since October 2021

(b) Wesfarmers Leadership Team

The table below sets out the members of the Wesfarmers Leadership Team, including their position and tenure as at the date of this Scheme Booklet:

Name	Position	Tenure on Wesfarmers Leadership Team
Rob Scott	Managing Director and Chief Executive Officer, Wesfarmers	Since February 2017
Anthony Gianotti	Chief Financial Officer, Wesfarmers	Since July 2017
Maya vanden Driesen	Group General Counsel, Wesfarmers	Since January 2015
Vicki Robinson	Executive General Manager, Company Secretariat, Wesfarmers	Since March 2020
Michael Schneider	Managing Director, Bunnings Group	Since May 2017
Ian Bailey	Managing Director, Kmart Group	Since November 2018
Sarah Hunter	Managing Director, Officeworks	Since January 2019
Ian Hansen	Managing Director, Wesfarmers Chemicals, Energy & Fertilisers	Since April 2020
Jenny Bryant	Chief Human Resources Officer, Wesfarmers	Since October 2016
Tim Bult	Managing Director, Wesfarmers Industrial and Safety	Since April 2020
Emily Amos	Managing Director, Wesfarmers Health	Since April 2022
Nicole Sheffield	Managing Director, Wesfarmers OneDigital	Since November 2021
Naomi Flutter	Executive General Manager, Corporate Affairs, Wesfarmers	Since August 2018
Michael Britton	Executive General Manager, Business Development	Since March 2023

6.4 OVERVIEW OF API

API is a leading Australian pharmaceutical distribution, health and beauty services company that was acquired by Wesfarmers in March 2022, forming the Wesfarmers Health division. API provides wholesale distribution of pharmaceutical, medical, health, beauty and lifestyle goods to pharmacies, as well as health and beauty retail products and services directly to consumers. API operates a retail and franchise business through its Priceline and Priceline Pharmacy network, which comprises franchised pharmacies and other partner pharmacies as well as company-owned and franchised non-pharmacy health and beauty stores. API separately provides a range of retail products, services and solutions to the Soul Pattinson and Pharmacist Advice banner groups, and to independent pharmacies through its Club Premium membership program.

API also operates the Clear Skincare network of retail skincare clinics and owns the Sister Club loyalty program.

API acquired the InstantScripts business in July 2023. InstantScripts provides online health services including online doctor consultations and prescriptions.

6.5 RATIONALE FOR PROPOSED ACQUISITION OF SILK

The acquisition of SILK would complement Wesfarmers Health's existing Clear Skincare network of clinics, providing scale and efficiency benefits through an expanded presence in the market for aesthetics products and services.

API expects that the acquisition of SILK would provide SILK franchisees and business owners with the benefits associated with being part of a broader healthcare, wellness and beauty network, as well as access to capital to support future growth.

API considers that the opportunity for improvements in clinical education and medical governance framework, training practices, cosmetic injectable treatments, and the broader innovation trends in medical aesthetics, will further support its objective to deliver high-quality services that meet evolving customer expectations.

6.6 FUNDING OF THE SCHEME CONSIDERATION

(a) Maximum cash consideration

If the Scheme becomes Effective, Scheme Shareholders will receive Total Cash Value of \$3.35 per each SILK Share they hold on the Scheme Record Date. This will be the total cash amount received by Scheme Shareholders, and includes the cash consideration payable by API as consideration for the Scheme as well as any Special Dividend up to \$0.10 which the SILK Board decides to pay.

Having regard to SILK's issued share capital, the proposed treatment of the SILK Performance Rights (see Section 9.2 of this Scheme Booklet) and the Total Cash Value of \$3.35 per Scheme Share, the maximum amount payable by API in connection with the Scheme will be \$180,094,409. This includes the payment of a fully-franked dividend of up to a maximum of \$0.10 per SILK Share, and the payment of approximately \$2.1 million payable to the holders of SILK Performance Rights which will be cancelled in exchange for a cash amount equivalent to the Scheme Consideration (see Section 9.2 of this Scheme Booklet for further information), which are amounts which would actually be paid by SILK.

(b) Intragroup funding

Wesfarmers, through itself or one or more of its Subsidiaries, will provide API with sufficient funds to fund the Scheme Consideration.

In addition, Wesfarmers will repay or assume the existing debt facilities of SILK. As disclosed in SILK's results for the year ending 30 June 2023, the average used facilities of SILK over the course of FY23 was approximately \$26 million and the net debt at 30 June 2023 was \$9.1 million. Wesfarmers anticipates that the combination of the Scheme Consideration and an amount broadly equivalent to the average net debt plus any other adjustments due to movements in working capital or other funding items as at the Implementation Date will represent its total funding commitments for the Scheme and will represent the initial funds employed in the Scheme.

(c) Overview of API's funding arrangements

On behalf of API, Wesfarmers intends to fund, either itself or through one or more of its Subsidiaries, the amount of the Scheme Consideration and the SILK debt repayment via existing balance sheet capacity and bank debt facilities. As at 30 June 2023 (being the last day of the last financial year for which Wesfarmers has audited financial statements), Wesfarmers had available cash at bank and on deposit with an aggregate value of \$254 million (excluding \$252 million of cash on hand and in transit and \$167 million of cash held in joint operation) and unused banking financing facilities available of \$2.625 billion.

(d) Provision of Scheme Consideration

On the basis of the arrangements described in this Section 6.6, API believes that it has a reasonable basis for forming the view, and it holds the view, that it will be able to satisfy its obligation to fund the aggregate Scheme Consideration as and when it is due and payable under the terms of the Scheme.

6.7 API'S INTENTIONS FOLLOWING IMPLEMENTATION OF THE SCHEME

API's intentions have been formed on the basis of facts and information concerning SILK which are known to API as at the date of this Scheme Booklet. Final decisions on these matters will be made by API in light of all material facts and circumstances at the relevant time. Accordingly, the statements set out in this Section are statements of current intention only, which may change as new information becomes available or as circumstances change, and the statements in this Section should be read in this context.

(a) Business continuity and operations

If the Scheme is implemented, it is the current intention of API to continue to operate the business of SILK substantially in its current form and continue the present strategic direction of SILK.

API intends to work with SILK and Clear Skincare's leadership teams to identify and actively pursue growth and efficiency opportunities. API intends to undertake a detailed review of SILK's operations following implementation of the Scheme.

API continues to see opportunities to invest in and strengthen the competitive position of SILK and Clear Skincare, and improve the ability of the combined business to meet customer expectations for the delivery of safe, professional, high-quality innovative services.

(b) Head office

API currently intends to maintain SILK's corporate office in Adelaide.

(c) Board of directors

Pursuant to clause 6.8 of the Scheme Implementation Deed, the SILK Board will be reconstituted from the Implementation Date. As at the date of this Scheme Booklet, the directors of SILK after the Implementation Date have not been determined.

(d) Employees

API considers SILK's employees to be important to the future success of the business. Following implementation of the Scheme, API will review Clear Skincare's and SILK's business operations and organisation structures, in consultation with the leadership teams, to ensure the combined business has the appropriate mix and level of employees and skills to enhance the business going forward and enable growth opportunities.

(e) Delisting

If the Scheme is implemented, API will direct that SILK apply to the ASX for SILK to be removed from the official list of the ASX on or after the Implementation Date.

(f) Constitution

API intends to replace SILK's constitution with a constitution appropriate for an unlisted company limited by shares.

6.8 WESFARMERS GROUP INTEREST AND DEALINGS IN SILK SHARES

(a) Interests in SILK Shares

As at the Last Practicable Date, neither API nor any member of the Wesfarmers Group had any Relevant Interests or voting power in any SILK Shares.

(b) Dealings in SILK Shares in the previous four months

During the four months before the date of this Scheme Booklet, other than pursuant to the Scheme Implementation Deed, Scheme, Deed Poll or the Share Transfer, neither API nor any of its Associates has agreed to provide consideration for any SILK Shares under any transaction or agreement.

(c) Benefits given in the previous four months

During the four months before the date of this Scheme Booklet, none of API or any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an associate to vote in favour of the Scheme or dispose of SILK Shares, where the benefit was not offered to all SILK Shareholders.

(d) Benefits to current SILK officers

None of API or its Associates will be making any payment or giving any benefit to any current director, secretary or executive officer of SILK as compensation for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

6.9 NO OTHER MATERIAL INFORMATION

Except as otherwise disclosed in this Scheme Booklet, there is no other API Information that is material to the making of a decision in relation to the Scheme, being API Information that is within the knowledge of the directors of API, at the date of this Scheme Booklet, which has not previously been disclosed to SILK Shareholders.

07 Risk Factors

In the ordinary course of business, the SILK Board and SILK's senior management assess material risks associated with SILK's business and take appropriate steps to manage and mitigate those risks. The SILK Board considers, however, that it is appropriate for SILK Shareholders, in considering the Scheme, to be aware that there are a number of risk factors, general and specific, which could impact the future operating and financial performance of SILK and the value of SILK Shares.

The risk factors in Section 7.1 are risks specific to the Scheme.

The risk factors in Sections 7.2 and 7.3 are existing risks that relate to SILK's business and the industry in which it operates, or that are generally associated with an investment in listed securities. These risks will only continue to be relevant to you if the Scheme does not proceed, in which case (in the absence of a Competing Proposal that is ultimately implemented) SILK will continue to operate as a standalone entity, and SILK Shareholders will continue to own SILK.

From implementation of the Scheme, Scheme Shareholders will cease to hold SILK Shares and will no longer be exposed to the risks set out in Sections 7.2 and 7.3 in respect of those SILK Shares.

You should carefully consider the risks discussed in this Section 7, as well as the other information contained in this Scheme Booklet generally, before voting on the Scheme Resolution. You should consult your legal, financial, taxation or other professional adviser if you are unclear or uncertain about any matter mentioned in this Section 7 or elsewhere in this Scheme Booklet.

Additional risks and uncertainties not currently known to SILK may also have a material adverse effect on SILK's financial and operational performance and the information set out in this Section 7 does not purport to be, nor should it be construed as representing, an exhaustive list of the risks affecting SILK, its business or an investment in SILK Shares.

7.1 RISKS SPECIFIC TO THE SCHEME

(a) Scheme may not proceed or may be delayed

Implementation of the Scheme is subject to a number of Conditions including Court approval, which are summarised in Section 9.4 of this Scheme Booklet and set out in full in clause 3.1 of the Scheme Implementation Deed. As SILK announced to the ASX on 10 August 2023, the ACCC Condition and the NZCC Condition have both been satisfied, subject to the ACCC or the NZCC (as applicable) not withdrawing, suspending or revoking its written confirmation.

There is a risk that such Court approval may not be obtained, either at all or in the form proposed, or Court approval may be delayed. In particular, if there is a material change in circumstances between the Scheme Meeting and the Second Court Date, the Court will take the change into account in deciding whether it should approve the Scheme. If there is a material change of sufficient importance so as to materially alter the Scheme, there is a risk that the Court may not approve the Scheme on the Second Court Date.

If the Conditions are not satisfied or waived (if permitted) by the End Date, the Scheme Implementation Deed may be terminated, which will mean the Scheme will not be implemented. These termination rights are summarised in Section 9.4(f) of this Scheme Booklet.

A failure to satisfy any of the Conditions, or a delay in satisfying the Conditions and implementing the Scheme, may adversely affect the trading price of SILK Shares.

(b) Risks if the Scheme is implemented

If the Scheme is implemented, you will no longer be a SILK Shareholder and will forgo any future benefits that may result from being a SILK Shareholder. In particular, if the Scheme is implemented, you will not be able to participate in the future financial and share price performance of SILK, retain any exposure to SILK's business or assets or have the opportunity to share in any value that could be generated by SILK in the future (unless you choose to obtain indirect exposure to SILK's business through acquiring shares in Wesfarmers).

However, there is no guarantee as to SILK's future performance, or its future share price and financial performance, as is the case with all investments.

SILK Shareholders may also consider that it would be difficult to identify or invest in alternative investments that have a similar investment profile to that of SILK, or may incur transaction costs in undertaking any new investment.

(c) Tax consequences for Scheme Shareholders

If the Scheme is implemented, there may be tax consequences for Scheme Shareholders that may include tax being payable on any gain on the transfer of Scheme Shares to API.

The tax treatment may vary depending on the nature and characteristics of each Scheme Shareholder and their specific circumstances.

Accordingly, Scheme Shareholders should seek independent professional tax advice in relation to their particular circumstances.

For further information about the general Australian tax consequences of the Scheme and any Special Dividend that the SILK Board decides to pay, please refer to Section 8 of this Scheme Booklet.

(d) Transaction and other costs

Costs of approximately \$6.0 million (excluding GST and disbursements) are expected to be paid by SILK in connection with the Scheme, some of which will be paid irrespective of whether the Scheme becomes Effective (or is implemented). The costs include advisers fees for SILK's financial, legal, accounting and tax advisers, the Independent Expert's and Share Registry's fees, general administrative fees, Scheme Booklet design, printing and distribution costs, and expenses associated with convening and holding the Scheme Meeting. Of this, approximately \$2.4 million (excluding GST and disbursements) will be incurred regardless of whether or not the Scheme is implemented, excluding any Break Fee that may be payable to API.

(e) Risks if the Scheme does not become Effective

If the Scheme does not become Effective:

- (i) Scheme Shareholders will not receive the Scheme Consideration and SILK will not pay the Special Dividend;
- (ii) SILK Shares will not be transferred to API (and will be retained by SILK Shareholders);
- (iii) SILK will continue, in the absence of a Competing Proposal that is ultimately implemented, to operate as a standalone entity, and remain listed on ASX;
- (iv) unless they chose to sell their SILK Shares on the ASX, SILK Shareholders will continue to hold SILK Shares and be exposed to the benefits and risks associated with an investment in SILK on a standalone basis (refer to Sections 7.2 and 7.3 of this Scheme Booklet for further details about these risks);
- (v) SILK may be required to pay the Break Fee to API if the Scheme does not proceed in certain circumstances. However, the Break Fee is not payable by SILK to API simply because the Scheme Resolution is not approved by SILK Shareholders. See Section 9.4(k) for further details; and
- (vi) the Independent Expert expects that, at least in the short term, SILK Shares will trade at a significant discount to the Independent Expert's valuation (being a range of \$3.06 to \$3.44) and to the Scheme Consideration.

(f) Risks specific to the Special Dividend

(i) *Special Dividend dependent on outcome of the Scheme*

As noted in Sections 3.4 and 7.1(e) of this Scheme Booklet, if the Scheme does not become Effective, SILK will not pay the Special Dividend.

(ii) *Payment of Special Dividend*

The decision to pay the Special Dividend is subject to the SILK Board's discretion. It is expected that the SILK Board will make this decision and announce any Special Dividend before the Scheme Meeting, with payment being conditional on the Scheme becoming Effective.

(iii) *Tax implications of the Special Dividend*

A class ruling is being sought in relation to the taxation implications of the Scheme, including the availability of franking credits attached to the Special Dividend. As at the date of this Scheme Booklet, the ATO has not made a determination in respect to SILK's Class Ruling application. Even if a favourable Class Ruling is obtained from the ATO, the question of whether or not a SILK Shareholder is able to obtain the full benefit of the franking credits depends on their personal tax circumstances.

In assessing the value of any Special Dividend, SILK Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances.

7.2 SPECIFIC RISK FACTORS FOR SILK'S BUSINESS

There are a range of business-specific risks associated with your current investment in SILK Shares, some of which are set out below. These risks include the material business risks, as well as other risks which may be relevant to SILK Shareholders' decision in relation to the Scheme. You will only continue to be exposed to these risks if the Scheme does not proceed and you retain your investment in SILK Shares. While SILK has in place what it considers are appropriate policies and procedures to help manage these risks, there is no guarantee that SILK will be able to manage these risks completely. Furthermore, certain aspects of these risks (or SILK's ability to respond to and manage them) may be partly or wholly outside of SILK's control.

(a) Changes in market and consumer trends

SILK's continued success depends in part on its ability to anticipate, gauge and respond to industry trends and changes in consumer preferences and attitudes towards different non-surgical aesthetic treatments. Due to the increasing use of social and digital media by consumers and the speed by which information and opinions are shared, trends may change rapidly, and SILK must work continually to ensure that it has an appropriate mix of service and product offerings in order to attract and retain clients. If SILK is unable to anticipate and respond to trends in the non-surgical aesthetics industry and changing consumer demands in a timely fashion, its financial results may deteriorate.

Although SILK believes that non-surgical aesthetics are increasingly becoming part of a regular beauty routine and are seen less as a discretionary spending category, there is no guarantee this trend will continue into the future.

Consumer behaviour and spending in the non-surgical aesthetics sector may be affected by the state of the broader economy. If Australian economic conditions worsen, there is a risk that consumers will reduce their level of consumption or redirect their spending to cheaper alternatives to SILK's non-surgical aesthetic treatments and skincare products, which may result in a reduction in SILK's revenue and may have a material adverse effect on SILK's financial performance and financial position.

(b) Non-compliance with regulations and regulatory changes

There is a risk that SILK may fail to comply with applicable laws and regulations in operating its business (including in relation to franchising, privacy and employment). As a franchisor, SILK may be liable for breaches of laws and regulations by its franchisees, such as underpayment of staff by franchisees, where it has failed to take reasonable steps to ensure compliance by franchisees.

In addition, there are various federal, state and territory laws and regulations that govern the non-surgical aesthetics industry in Australia, which impact SILK and the health practitioners based at SILK's clinics.

Due to the nature of the services offered by SILK, consumer confidence in SILK and its clinics is important to retaining and attracting new clients. Non-compliance with applicable laws and regulations, and associated adverse publicity, could damage SILK's brand and reputation and result in loss of clients and reduced demand for SILK's services and products.

Other adverse consequences for SILK include loss of regulatory licences, regulatory penalties or other litigation and product recalls, as well as costs associated with dealing with such adverse consequences (such as legal costs), which could materially affect SILK's financial performance and financial position.

Any future changes in regulation or in current interpretation that apply to SILK's operations, including changes that apply to the non-surgical aesthetics industry and franchising industry, may have an adverse impact on the way SILK operates its business.

(c) Key management and personnel

The successful operation of SILK is reliant on its ability to attract and retain experienced, skilled and high performing personnel (including key management), particularly cosmetic injectable nurses (who have particular skills and accreditations which are required to offer certain services in accordance with applicable laws).

Failure to attract and retain such personnel may adversely affect SILK's operations and ability to execute its business strategy, which may, in turn, result in a material increase in the cost of obtaining appropriately qualified and experienced personnel and affect SILK's financial performance.

Given the personal and sensitive nature of certain services offered by SILK (particularly cosmetic injectables), clients tend to be loyal to particular service providers or clinics, rather than to SILK and its business more generally. SILK's ongoing success depends to a significant extent on the continued engagement of its key personnel which are important to maintaining a dedicated client base and attracting new clients. Failure to retain key talent may have a materially adverse impact on SILK's financial performance and financial position.

(d) Brand or reputational damage

SILK's ability to maintain its reputation is critical to the consumer perception of its clinics and offerings. A number of factors as set out in this section may adversely impact SILK's brand name, related intellectual property and general reputation of SILK's business, which may adversely impact SILK's financial performance, condition and future prospects.

These factors include serious or unexpected side effects experienced by clients from the provision of SILK's non-surgical aesthetic services or SILK's skincare products (which may or may not be the fault of SILK), failure to maintain consistent and high standards across its network of clinics, inadvertent breach of privacy obligations leading to the disclosure of client personal or sensitive information, potential disputes or litigation with suppliers, clients, employees or other third parties and other risks to SILK's brand and reputation that are beyond SILK's control, including any adverse publicity in relation to the non-surgical aesthetics industry.

Damage to the reputation of SILK's main third party equipment and product suppliers (which may be affected by matters outside of SILK's control) could have an adverse effect on SILK's operations and ability to execute its growth strategy. This could result in a material adverse impact on SILK's financial performance, condition and future prospects.

(e) Treatments and products

There is a risk that the provision of SILK’s non-surgical aesthetic services and SILK’s skincare products may cause serious or unexpected side effects, including injury or harm to consumers. Consumer confidence in SILK and its non-surgical aesthetic services (in particular, sensitive services such as cosmetic injectables and skincare services) and SILK’s skincare products are important to retaining and attracting new clients. Allegations or media reports of adverse reactions regarding SILK’s treatments, or commentary on product safety or suitability for use by a particular consumer, even if untrue, may adversely impact SILK’s reputation and financial performance.

If any of SILK’s non-surgical aesthetic treatments or SILK’s skincare products are perceived to be unsafe or inferior, or if they otherwise fail to meet clients’ expectations, SILK’s relationship with consumers could suffer and SILK may lose market share and become subject to liability claims.

There is a risk that any adverse publicity on the safety and efficacy of non-surgical aesthetic treatments of SILK’s competitors (that is beyond the control of SILK, SILK’s Board and SILK’s senior management) may impact consumer confidence in the non-surgical aesthetics industry more generally and have a negative impact on the demand for SILK’s services and products and SILK’s financial performance.

(f) New treatments and products launched by SILK may not be successful

Non surgical aesthetic treatments and skincare products launched by SILK may not be as successful as anticipated, which could have a material adverse effect on SILK’s business, financial condition or results of operations.

Each new treatment and product launch carries risks, as well as the possibility of unexpected consequences, including:

- the advertising, promotional and marketing strategies for new treatments and products may be less effective than expected and may fail to effectively reach the targeted consumers;
- the results promoted by suppliers may not be realised;
- the costs associated with launching new treatments and products may exceed budgeted expectations;
- the pricing of new cosmetic treatments and products may not be accepted by consumers, resulting in weaker than expected demand for the new product; and
- consumers may experience unexpected adverse reactions to new non surgical aesthetic services or skincare products.

(g) Cyber security and IT systems

SILK retains personal information about its clients in its systems including relating to health and sensitive information regarding treatments. If the data was to be illegally obtained and publicly disclosed this would have a severe impact on SILK’s reputation and clients may seek compensation.

SILK is mindful of this risk and has embarked on an IT program to migrate to highly regarded, cloud based systems. However, adverse actors can be highly sophisticated and it is not possible to completely eliminate this risk.

SILK relies on third party providers and it is possible that they could be impacted by unforeseen events such as power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or other unforeseen events. If SILK’s information technology systems suffer severe damage, disruption or shutdown, SILK’s operations may be materially and adversely affected.

(h) Increased competition

SILK operates in a highly competitive industry that is subject to factors such as changing consumer preferences. SILK has a number of competitors within the markets of its five core segments, specifically, the hair removal, injectables, facial care, skincare and body contouring and fat reduction market segments. Competition is based on a variety of factors including client experience, pricing, selection and quality of services, clinic accessibility and brand recognition.

SILK's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors, a failure by SILK to maintain its market position or the introduction of new technology or proprietary products that may not be accessible by SILK. A decline in SILK's competitive position in any one of its core categories could adversely impact its ability to upsell and cross-sell to clients and therefore reduce client stickiness (being the recurring nature of clients) to SILK's business. Any deterioration in SILK's competitive position may result in a loss of market share and a decline in revenue and earnings.

(i) Unfavourable provisions in lease arrangements

All of SILK's clinics are operated from leased premises. Each lease has different legal terms including expiry dates and renewal options. For example, generally lease options are not granted by shopping centre landlords, however a number of SILK's high street locations have one or two five-year lease options. Any failure to comply with the terms of its leases, deterioration in relationships with its landlords or other actions taken by landlords may negatively impact the security of tenure of SILK's clinics. There is also a risk that SILK, SILK joint venture entities or traditional franchisees may not be able to renew their leases on favourable terms, which may increase operating costs and adversely impact SILK's financial performance.

As SILK is listed on the ASX, any new leases, or renewals of existing leases in certain circumstances, will not be covered by the retail leases legislation in certain states and territories, and landlords will be able to pass relevant costs on to SILK. This may lead to increased outgoings for SILK and have an adverse impact on its financial and operating performance.

(j) Incorrect payments to employees

SILK operates in an industry where certain Australian awards apply. While SILK is comfortable that it has consistently sought to pay all of its employees in accordance with the relevant award and has implemented systems to support this objective, there are multiple precedents of Australian employers over recent years that demonstrate the scope for mistakes to happen. Furthermore, while these systems implemented by SILK allow it to closely monitor compliance by its head office and SILK's corporate and joint venture clinics, SILK has less oversight over the traditional franchisee clinics. SILK considers that it takes reasonable steps to ensure compliance by franchisees, however there is a risk that SILK (including any of its traditional franchisee clinics) may incorrectly interpret certain award rates or allowances or misclassify certain employees, which could result in incorrect payments being made to employees and there is a risk that SILK may be liable for a franchisee's non-compliance. This may lead to regulatory penalties and the need to repay employees for any incorrect payments, which may adversely impact SILK's financial performance, financial position and reputation.

(k) Inconsistency of service and client experience between clinics

SILK's network of clinics operates in different locations and have different ownership structures (corporate, joint venture and traditional franchise clinics).

Clients may have differing experiences of service and quality of care from clinic to clinic, which may impact SILK's brand and reputation. Poor client experience at any one clinic may have adverse consequences for client loyalty and the potential for repeat business for the specific clinic, as well as consumer confidence in the broader network of SILK clinics, which may have a negative impact on SILK's ability to maintain its market share, financial performance and future prospects.

(l) Material contracts

SILK's material contracts may contain unfavourable provisions, be terminated, lost or impaired or renewed on less favourable terms. In certain circumstances, SILK may be required to indemnify a counterparty for any loss, damage or claim suffered or incurred by that counterparty in connection with a breach of the relevant contract by SILK or one of their respective joint venture or traditional franchise clinics.

Termination of a key arrangement prior to the end of the contract term, or SILK's inability to enforce its rights under a contract, could have adverse impacts on SILK's business and operation costs and consequently, SILK's financial performance.

(m) Reliance on third party suppliers

SILK relies on third party suppliers for equipment, cosmetic injectables and medical consumables as well as third party contract manufacturers for SILK's skincare products. SILK also relies on third party providers for various services including point of sale software, online training platforms, online accounting platforms and online marketing platforms. A disruption to the operations of any of SILK's third party suppliers or contract manufacturers could restrict, interrupt or otherwise adversely affect SILK's operations. These may be for reasons including a shortage of ingredients or key medical consumables, a production outage or significant disputes (including with SILK), lack of availability of maintenance services, material damage or destruction of a supplier's facilities, a significant workplace safety incident or a compliance breach. While SILK seeks to hold sufficient quantities of finished product and diversify its suppliers for its key categories (particularly in relation to cosmetic injectables), there is a risk that SILK may fail to manage its inventory appropriately or achieve such diversity in its supply relationships at all times. There is no guarantee that SILK will be successful in securing an appropriate substitute for these third party suppliers and contract manufacturers at short notice. There is also a risk that SILK may not be able to retain its existing arrangements with its third party suppliers and contract manufacturers and any new arrangements may not be as favourable to SILK. This may have an adverse impact on SILK's financial performance and future prospects.

SILK's scale and national procurement model places SILK in a favourable negotiating position and helps SILK to maintain relationships with its equipment and cosmetic injectable suppliers in particular, which provides SILK with opportunities to collaborate on potential improvements to technology and gain access to new technological advancements. If there is a breakdown in SILK's relationships with any of these suppliers, SILK would need to seek alternative relationships and is not assured that these alternative relationships will be as advantageous to SILK or enable SILK to maintain its competitive advantage.

(n) Reliance on franchisees or joint venture parties

SILK operates clinics under different ownership structures (corporate, joint venture and traditional franchise clinics). SILK leverages its scale and enters into umbrella arrangements with counterparties (for example, supply and financing arrangements) under which SILK either expressly guarantees the obligations of entities operating joint venture or traditional franchise clinics or undertakes to ensure compliance by those entities with the terms of the relevant umbrella agreement, for example, where joint venture or traditional franchise clinics place orders with, and are invoiced by, the supplier directly in circumstances where only SILK has directly contracted with the supplier under the umbrella arrangement. Compliance by entities operating joint venture or traditional franchise clinics may be outside SILK's direct control. Failure by any entity operating a joint venture or traditional franchise clinic to comply with the relevant terms under an umbrella agreement may expose SILK to claims, losses and disputes with the counterparties of the relevant umbrella agreement. This may adversely impact SILK's business operations and financial performance.

The financial health of the traditional franchise network may not enable them to continue to operate in a sustained economic downturn. SILK's support office endeavours to obtain financial information from its traditional franchisees and monitors their key performance indicators. SILK supports franchisees that are encountering difficulties and will help provide them with remedial plans and other forms of support. However, there is a risk that this may not be sufficient and some franchisees could become no longer viable, which would impact SILK's financial performance.

(o) Departure of franchisees or joint venture parties

Despite restraint of trade obligations contained in SILK's franchise documents and joint venture arrangements, franchisees of traditional franchise clinics or non-SILK parties of joint venture clinics may seek to leave SILK's network of clinics and operate competing businesses or SILK's restraint of trade terms may not be enforceable.

There is a risk that SILK may lose clients as a result of franchisees of traditional franchise clinics or non-SILK parties of joint venture clinics leaving the network which may have an adverse impact on SILK's market share and financial performance.

(p) Failure to implement business strategy successfully

There is a risk that SILK is unable to execute its business strategy of organic and acquisitive growth (growing its business in its existing clinics as well as opening and acquiring new clinics). For example, SILK may not be able to grow its existing clinics due to weaker than anticipated demand for SILK's new treatments and products, adverse changes in the perception of SILK's brand or changes in consumer preferences or spending habits.

SILK's ability to open new clinics may be affected by a number of factors, including availability of suitable sites, reaching agreement with landlords in relation to lease terms, ability to find suitable personnel (such as accredited cosmetic injectable nurses) or clinic fit out cost overruns due to unexpected increases in the cost of items such as materials and labour. SILK's ability to open new clinics on a particular timeframe may also be affected by such factors as the landlord failing to give vacant possession or specific licences or other authorisations required to be held by a clinic not being obtained in a timely manner. There is also a risk that new clinics opened by SILK may be unprofitable because the demand for SILK's services and products may be less than anticipated.

Any delay in implementation of, failure to successfully implement or unintended consequences of implementing any or all of SILK's growth strategies may have an adverse effect on SILK's future financial performance and growth prospects.

(q) Insurance coverage

SILK currently has in place what it believes are adequate levels of insurance for property, public and product liability, directors' and officers' liability, medical malpractice and workers' compensation to protect SILK from potential losses and liabilities. However, there is a possibility that events may arise which are not adequately covered by SILK's existing insurance policies and SILK cannot guarantee that SILK's existing insurance will be available or offered in the future. An inability of SILK to maintain such cover in the future could limit the ability of SILK to conduct its business, which could have a negative impact on the financial results and prospects of SILK.

(r) Litigation or other disputes

From time to time, SILK may be involved in litigation, claims or other disputes relating to matters such as personal injury (for example, in relation to adverse reactions to treatments provided), privacy breaches, product liability, intellectual property, contractual, employee and workplace health and safety and other claims arising in the ordinary course of SILK's business or otherwise.

Litigation may adversely impact upon the operational, reputational and financial performance of SILK, and may also negatively impact on SILK's share price. Should SILK pursue claims against a third party, such process may utilise significant management and financial resources, and a positive outcome for SILK cannot be guaranteed. Even if SILK is successful in obtaining a judgment against a third party, SILK may be unable to recover any monies from that party (for example, if the relevant third party has inadequate financial resources to cover any damages judgment awarded in favour of SILK).

Adverse litigation outcomes could negatively impact SILK's business, financial condition and reputation.

As announced in the SILK Appendix 4E and audited financial report for the year ended 30 June 2023 released to the ASX on 30 August 2023, the total amount payable for the acquisition of Eden Laser Clinics has not been agreed and is currently the subject of a legal dispute impacting the final completion accounts. The vendor of the Eden Laser Clinics business is claiming that further amounts are payable in addition to the amounts reported in the SILK Appendix 4E and audited financial report for the year ended 30 June 2023. The SILK Board does not believe additional amounts will be payable.

(s) Access to funding

There is a risk that SILK may not be able to raise debt finance or new equity in the future to continue to pursue its business strategy and grow its business. SILK's ability to raise additional funds on favourable terms or at all will be subject to, among other things, factors beyond the control of SILK and its directors, including cyclical factors affecting the economy and share markets generally.

(t) SILK's acquisitions may not be successful

Part of SILK's growth strategy has been to undertake acquisitions of similar businesses.

There are inherent risks with any business acquisition. For example, the acquired business may not ultimately produce the financial returns that SILK anticipates or the costs and managerial time associated with integrating new acquisitions to SILK's network may be greater than expected by SILK and SILK's senior management.

Despite SILK undertaking due diligence on the subject of its acquisitions, any acquisition of existing businesses involves a risk of unknown or unanticipated liabilities being revealed. For example, previous adverse events or liabilities to employees may be discovered following completion of the acquisition for which SILK may become liable.

If SILK undertakes an acquisition which proves to be unsuccessful, this may have a material adverse effect on SILK's business, financial performance and financial position.

(u) Infringement of third party intellectual property rights

SILK's commercial success depends at least in part on its ability to operate without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and other proprietary rights of others (either inadvertently or otherwise). SILK cannot be certain that the conduct of its business, does not and will not infringe, misappropriate or otherwise violate such rights.

Third parties may allege that SILK's cosmetic treatments, products or activities infringe, misappropriate or otherwise violate their trademarks, patents, copyrights or other proprietary rights in an attempt to gain a competitive advantage. Defending against allegations and litigation could be expensive, take significant time and divert management's attention. SILK may also be required to pay substantial damages or be subject to court orders prohibiting SILK and its franchisees from engaging in certain activities. This could have a material adverse effect on SILK's business, financial condition and results of operations.

SILK has a contractual right to acquire ownership of the formula for its Aesthetics RX products from the contract manufacturer. If the contract terminates prior to SILK exercising this right, SILK's right to acquire ownership of the formula will no longer be able to be exercised. This may restrict SILK's ability to continue selling the Aesthetics RX products (for example, if the owner of the formula ceases to manufacture and sell these products to SILK), which may, in turn, have an adverse effect on SILK's financial performance.

(v) Compliance with environmental regulations

In connection with the provision of non-surgical aesthetic services, SILK's clinics deal with biological and medical waste, needles, sharps and other hazardous or regulated materials, including radiation and regulated drugs. Disposal of these materials is required to comply with relevant regulations, including environmental regulations. In addition, SILK may be required to hold licences or other authorisations in connection with these activities.

Failure to comply with environmental and other regulations or hold the required licences or other authorisations relevant to the disposal of these materials may result in adverse publicity, regulatory penalties or other litigation, which may damage SILK's brand and reputation. This may result in loss of clients and reduced demand for SILK's services and products.

(w) Exposure of revenues to seasonal cycles

Some of SILK's revenues are seasonal in nature, driven by the time of year and SILK's usual periods of discounting.

Generally, SILK generates more revenue in the first half of the financial year than second half of the financial year due to greater demand for SILK's non-surgical aesthetic treatments and products during the spring months. This is largely driven by SILK's usual promotional campaigns in the first half of the financial year (which, for example, generally leads to increased spend on Laser Hair Removal and Skin prepaid packages) and the tendency for cosmetic injectables to be delivered in the months of October to December in preparation for end of year functions and celebrations. This causes seasonal revenue variations. If SILK does not accurately assess projected seasonal demand for its services or products, this may result in higher labour costs, lower margins and increased inventory, which may have an adverse impact on SILK's financial performance.

(x) Foreign currency risk

SILK derives its revenue in Australian dollars and New Zealand dollars. SILK's financial performance will therefore also be affected by the value of the New Zealand dollar.

7.3 GENERAL RISK FACTORS

As with any entity with listed securities on ASX, the future prospects and operating and financial performance of SILK and the value of SILK Shares may be affected by a variety of factors. These general risk factors may include:

- (a) changes in investor sentiment and overall performance of the Australian and overseas stock markets;
- (b) changes in general business, industry cycles, and economic conditions including inflation, interest rates, exchange rates, commodity prices, employment levels and consumer demand and preferences;
- (c) economic and political factors in Australia and overseas, including economic growth;
- (d) changes in legislation and government, fiscal, monetary, regulatory policies including foreign investment, accounting or financial reporting standards and taxation laws (or their interpretation);
- (e) natural disasters, catastrophes and disease or pandemic (including the outbreak, escalation or impact of, and recovery from, the COVID-19 pandemic or similar outbreaks) and other macroeconomic occurrences, including but not limited to geopolitical events such as an outbreak of hostilities, acts of terrorism and declarations of war and the failure of SILK's business continuity plan (which aims to deal with major disruptions such as natural disasters and pandemics) operating effectively;
- (f) uncertainty around the likelihood, timing, franking or quantum of future dividends; and
- (g) failure to make or integrate any future acquisitions or business combinations (including the realisation of synergies), significant one-time write-offs or restructuring charges, and unanticipated costs and liabilities.

08 Taxation Implications

8.1 INTRODUCTION

This Section 8 sets out a general summary of the key Australian income tax, goods and services tax (GST) and stamp duty consequences of the Scheme and the receipt of any Special Dividend by Scheme Shareholders. The purpose of the summary is to assist SILK Shareholders to understand the potential Australian tax consequences of being a Scheme Shareholder.

The summary is based on the Australian tax laws, regulations, interpretations of such laws and regulations, and administrative practices in effect as at the date of this Scheme Booklet. The laws are complex and subject to change periodically as is their interpretation by the courts and tax authorities.

This summary is general in nature and is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of every Scheme Shareholder, and is not intended to be advice and should not be relied on as such. The tax consequences arising to Scheme Shareholders will vary depending on their specific profile, characteristics and circumstances. Accordingly, Scheme Shareholders should obtain independent professional taxation advice in relation to their own particular circumstances and should not rely only upon the comments contained in this summary.

The Australian tax consequences outlined below are relevant to Scheme Shareholders who are individuals, companies, trusts and complying superannuation funds that hold their SILK Shares on capital account for Australian income tax purposes. This summary does not cover Scheme Shareholders who:

- hold their SILK Shares as trading stock, as part of a profit-making undertaking or scheme, under an arrangement which qualifies as an employee share or rights plan for Australian tax purposes, or otherwise on revenue account;
- may be subject to special rules, such as banks, insurance companies, tax exempt organisations, certain trusts, superannuation funds (unless otherwise stated) or dealers in securities;
- are 'temporary residents' as that term is defined in section 995-1(1) of the *Income Tax Assessment Act 1997* (Cth);
- change their tax residence whilst holding SILK Shares;
- are not tax residents for Australian income tax purposes and who hold their SILK Shares as an asset of a permanent establishment in Australia;
- are not tax residents for Australian income tax purposes who, together with their associates, hold 10% or more of the shares in SILK;
- are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their SILK Shares; or
- are subject to the Investment Manager Regime under Subdivision 842-1 of the *Income Tax Assessment Act 1997* (Cth) in relation to their SILK Shares.

This summary does not take into account the tax laws of jurisdictions other than Australia. Accordingly, Scheme Shareholders who may be subject to tax in any jurisdiction outside Australia should obtain independent professional taxation advice on their particular circumstances.

SILK has applied for a class ruling from the ATO (**Class Ruling**), which it is anticipated will outline the ATO's views as to:

- the assessability of any Special Dividend and franking credits attached to that dividend;
- the circumstances in which a Scheme Shareholder will satisfy the 'qualified person' rule with respect to the fully franked Special Dividend;
- the application of certain franking integrity measures; and
- whether any Special Dividend will form part of the consideration for the disposal of the SILK Shares.

Subject to receiving the Class Ruling, SILK expects that the income tax implications for Scheme Shareholders are as described below. However, no assurance can be given as to the content of the Class Ruling.

When the final Class Ruling is published by the ATO, it will be available on the ATO website at www.ato.gov.au, and will also be published on SILK's website at <https://silklaser.com.au/investors/>. Scheme Shareholders should review the final Class Ruling when it is issued by the ATO.

8.2 SCHEME SHAREHOLDERS THAT ARE AUSTRALIAN RESIDENTS

(a) Australian income tax consequences arising on disposal of SILK Shares

(i) Capital gains tax

A capital gains tax (CGT) event will occur for Scheme Shareholders when they dispose of their SILK Shares to API under the Scheme. The time of the disposal of SILK Shares for CGT purposes should be the Implementation Date.

(ii) Calculation of capital gain or capital loss

Scheme Shareholders should make a capital gain from the disposal of their SILK Shares to the extent that the capital proceeds received exceed the cost base of their SILK Shares. Conversely, Scheme Shareholders should make a capital loss to the extent that the reduced cost base of their SILK Shares exceeds the capital proceeds received.

(iii) Capital proceeds

The capital proceeds from the disposal of the SILK Shares should equal the Scheme Consideration received by Scheme Shareholders.

Any Special Dividend should not form part of the capital proceeds that a Scheme Shareholder receives in respect of the disposal of their SILK Shares. Payment of any Special Dividend will be conditional on the Scheme becoming Effective.

(iv) Cost base and reduced cost base of a SILK Share

Generally, the cost base or reduced cost base of a Scheme Shareholder's SILK Shares should broadly equal the money they paid or were required to pay to acquire the SILK Shares plus any non-deductible incidental costs (such as brokerage fees and legal fees) incurred in acquiring or disposing of the SILK Shares. The cost base and reduced cost base of each SILK Share will depend on the individual circumstances of each Scheme Shareholder.

(v) CGT discount

Scheme Shareholders may be able to obtain discount capital gains treatment to reduce any capital gain made in respect of the disposal of the SILK Shares if those SILK Shares have been held for at least 12 months before the Implementation Date. The CGT discount is one half in the case of an individual or trust, or one third in the case of a complying superannuation entity. No CGT discount is available for companies.

(b) Australian income tax treatment of any Special Dividend

Scheme Shareholders should include any Special Dividend that the SILK Board decides to pay, including the attached franking credits, in their assessable income, in the income year in which the Special Dividend is paid. Scheme Shareholders may be entitled to a tax offset equal to the franking credits attached to the Special Dividend.

However, Scheme Shareholders will not be entitled to obtain a tax offset for the franking credits (and will not be required to include this amount in their assessable income) unless the Scheme Shareholders are 'qualified persons' in relation to the Special Dividend and certain franking integrity measures do not apply.

(i) 'Qualified person' rule

For a Scheme Shareholder to be considered a 'qualified person' in relation to any Special Dividend that the SILK Board decides to pay, the Scheme Shareholder, in this case, must have held their SILK Shares 'at risk' for a continuous period (excluding the day of acquisition and the day of disposal) of at least 45 days during the period beginning on the 44th day before the Special Dividend Record Date (which is expected to be 7.00pm Sydney time on Tuesday, 21 November 2023) and ending on the Scheme Record Date (which is expected to be 7.00pm (Sydney time) on Wednesday, 22 November 2023). A Scheme Shareholder will not be considered to have held their SILK Shares 'at risk' where the Scheme Shareholder has materially diminished risks of loss or opportunities for gain in respect of the SILK Shares (i.e. the Scheme Shareholder's net position in relation to the SILK Shares, for example due to hedging transactions, has less than 30% of those risks and opportunities). Under the Scheme, Scheme Shareholders should cease to hold the SILK Shares 'at risk' from the Scheme Record Date onwards.

Scheme Shareholders should seek independent professional advice regarding the application of the 'qualified person' rule to their particular circumstances.

(ii) Franking integrity rules

The franking integrity rules are intended to prevent abuse of the imputation system, e.g. by streaming franking credits to certain shareholders. The tax rules in this area are complex, and the Class Ruling that SILK has applied for seeks confirmation from the ATO that certain franking integrity rule should not apply.

Scheme Shareholders should seek independent professional advice regarding the application of the franking integrity rules to their particular circumstances.

(iii) Entitlement to franking credits in excess of tax liability

Provided that Scheme Shareholders are 'qualified persons' in relation to any Special Dividend and none of the franking integrity measures apply, to the extent that the Scheme Shareholders' entitlement to franking credits exceeds their tax liability for the income year:

- Scheme Shareholders who are Australian resident individuals and complying superannuation funds should be entitled to receive a refund of the excess franking credits; and
- Scheme Shareholders that are Australian resident companies may be able to convert excess franking credits into tax losses and credit their franking account with the amount of the franking credit attached to the Special Dividend.

8.3 FOREIGN TAX RESIDENT SHAREHOLDERS

(a) Australian income tax consequences arising on disposal of SILK Shares

Scheme Shareholders that are not tax residents of Australia and who, together with their associates, hold a less than 10% interest in SILK should be able to disregard a capital gain or capital loss arising from the disposal of their SILK Shares as their SILK Shares should not constitute 'taxable Australian property'.

Scheme Shareholders that are not tax residents of Australia (particularly those, together with their associates, holding a 10% or greater interest in SILK) should seek independent professional advice on the Australian tax consequences arising from the disposal of their SILK Shares having regard to their particular circumstances.

(b) Australian income tax treatment of any Special Dividend

For Scheme Shareholders that are not tax residents of Australia, any Special Dividend that the SILK Board decides to pay:

- should not be subject to income tax in Australia; and
- should not be subject to Australian dividend withholding tax (on the basis the Special Dividend can and will be fully franked).

Non-resident Scheme Shareholders should seek independent professional advice in relation to their own particular circumstances, including in respect of taxation in the jurisdiction where they are resident.

(c) Foreign resident capital gains withholding tax

The SILK Board is of the view that, as at the date of this Scheme Booklet, less than 50% of the market value of SILK's assets is attributable to direct or indirect interests in taxable Australian real property.

Accordingly, the foreign resident capital gains withholding tax regime should not operate to require API to withhold an amount of the Scheme Consideration that is to be paid to the Scheme Shareholders that are not tax residents of Australia.

Notwithstanding the above, Scheme Shareholders that are not tax residents of Australia (particularly those holding a 10% or greater interest in SILK) should seek independent professional taxation advice in this regard.

8.4 GST

GST should not be payable by Scheme Shareholders on the disposal of their SILK Shares under the Scheme or the receipt of any Special Dividend.

Scheme Shareholders may be charged GST on costs incurred by them in relation to the Scheme (e.g. tax, legal or other advisers fees). Scheme Shareholders may not be entitled to claim input tax credits (or reduced input tax credits) in relation to GST incurred on these costs.

Scheme Shareholders should seek their own independent tax advice on the impact of GST having regard to their own particular circumstances.

8.5 STAMP DUTY

Scheme Shareholders should not be liable for any stamp duty on the disposal of their SILK Shares under the Scheme or the receipt of any Special Dividend.

09 Additional Information

9.1 INTERESTS OF SILK DIRECTORS IN SILK SHARES

As at the Last Practicable Date, the SILK Directors have the following Relevant Interests in SILK Shares.

SILK Director	Position	Number of SILK Shares	Number of SILK Performance Rights	Percentage of issued SILK Shares held	Percentage of SILK Shares on a fully diluted basis ³⁰
Mr Boris Bosnich	Chairman and Independent Non-Executive Director	172,986 ³¹	Nil.	0.33%	0.32%
Mr Martin Perelman	Chief Executive Officer and Managing Director	2,878,398 ³²	<ul style="list-style-type: none"> • 136,674 unvested 2022 SILK Performance Rights; and • 100,000 unvested Class A 2023 SILK Performance Rights 	5.42%	5.79%
Ms Jacinta Caithness	Independent Non-Executive Director	3,773 ³³	Nil.	0.01%	0.01%
Ms Sinead Ryan	Independent Non-Executive Director	86,631 ³⁴	Nil.	0.16%	0.16%
Mr Andrew Cosh	Independent Non-Executive Director	1,562,999 ³⁵	Nil.	2.94%	2.91%
Total		4,704,787	236,674	8.86%	9.19%

30. This assumes that there are 53,759,525 shares (comprising 53,121,177 SILK Shares on issue and 638,348 SILK Performance Rights on issue).

31. 65,000 SILK Shares held directly by Mr Boris Bosnich, 93,986 SILK Shares held indirectly through Mrs Kerry Bosnich and Mr Boris Bosnich as trustee for B&K Family Trust and 14,000 SILK Shares held indirectly through Bosnich Super Pty Ltd as trustee for the Bosnich Superannuation Fund.

32. 65,000 SILK Shares held directly by Mr Martin Perelman and 2,813,398 SILK Shares held indirectly through Martin Perelman Nominees Pty Ltd as trustee for M Perelman Investment Trust.

33. Held directly by Ms Jacinta Caithness.

34. Held indirectly through Open Ur Eyes Pty Ltd as trustee for Open Ur Eyes Family Trust.

35. Held indirectly through WC Capital Pty Ltd as trustee for Bare Trust.

SILK Directors who hold SILK Shares, or entities who hold SILK Shares on behalf of SILK Directors, will be entitled to vote at the Scheme Meeting and, if the Scheme is implemented, will receive the Scheme Consideration for their SILK Shares, and any Special Dividend that is paid, along with other SILK Shareholders (subject to being a SILK Shareholder on the Scheme Record Date and Special Dividend Record Date, respectively).

Each SILK Director intends to vote, or cause to be voted, any SILK Shares held or controlled by them in favour of the Scheme Resolution, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of SILK Shareholders.

No SILK Director acquired or disposed of a Relevant Interest in any SILK Share or other SILK security in the four-month period ending on the date immediately before the date of this Scheme Booklet.

9.2 SILK INCENTIVE ARRANGEMENTS

(a) Overview of arrangements

As detailed in the SILK Appendix 4E and audited financial report for the year ended 30 June 2023, SILK operates an Equity Incentive Plan under which SILK has flexibility to grant rights, options, units, restricted shares and shares as incentives, subject to the terms of individual offers and the satisfaction of applicable conditions as determined by the Board from time to time.

SILK senior executives and key employees have previously received, and have on foot, a number of existing incentive arrangements which will be impacted by the Scheme (depending on the relevant offer terms).

In particular, as at the Last Practicable Date, SILK had 638,348 SILK Performance Rights on issue which comprise:

- 136,674 unvested 2022 SILK Performance Rights held by Mr Martin Perelman;
- 100,000 unvested Class A 2023 SILK Performance Rights held by Mr Martin Perelman;
- 45,558 unvested 2022 SILK Performance Rights held by Mr Ivan Jacques;
- 50,000 unvested Class A 2023 SILK Performance Rights held by Mr Ivan Jacques;
- 60,000 unvested Class A 2023 SILK Performance Rights held by Mr Darryl Cotter;
- 91,116 unvested 2022 SILK Performance Rights held by other SILK Group employees; and
- 155,000 unvested Class B 2023 SILK Performance Rights held by other SILK Group employees.

Each SILK Performance Right entitles the holder to receive one SILK Share after vesting, or a cash payment in lieu of a SILK Share in certain circumstances, subject to the satisfaction of certain conditions.

Further information about SILK's Equity Incentive Plan and other incentive arrangements can be found in announcements lodged by SILK with ASX, including in SILK's 2023 Remuneration Report that is included in SILK's Appendix 4E and audited financial report for the year ended 30 June 2023, which can be obtained from the ASX website www.asx.com.au and from SILK's website at <https://silklaser.com.au/investors/>.

(b) Impact of the Scheme on SILK Performance Rights and other incentive arrangements

Under the Scheme Implementation Deed, SILK must ensure that all SILK Performance Rights have either lapsed or vested and converted into SILK Shares such that there are no outstanding SILK Performance Rights on issue as at the Implementation Date.

This Section 9.2(b) sets out details regarding how the SILK Performance Rights and other incentive arrangements in place with senior executives and key employees will be treated in connection with the Scheme, as agreed between SILK and API.

SILK Performance Rights

Under the terms of the Equity Incentive Plan, if the SILK Board forms the view that there is an event which is likely to result in or should otherwise be treated as a change of control of SILK, the SILK Board is permitted to determine that all or a specified number of a participant's SILK Performance Rights will vest or that a different treatment apply to unvested SILK Performance Rights.

In compliance with SILK's obligations under the Scheme Implementation Deed, the SILK Board (excluding Mr Martin Perelman) has determined, subject to and with effect from the Scheme becoming Effective, to cancel all unvested SILK Performance Rights in exchange for a cash amount (per SILK Performance Right) of \$3.35.

This means that, subject to the Scheme becoming Effective, all of the SILK Performance Rights will be cancelled for cash consideration in the manner described above. This includes the SILK Performance Rights held by Mr Martin Perelman. SILK Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Martin Perelman's recommendation on the Scheme (in his capacity as a SILK Director), which appears throughout this Scheme Booklet.

The SILK Board (excluding Mr Martin Perelman) considers that, despite these arrangements, it is appropriate for Mr Martin Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Martin Perelman also considers that it is appropriate for him to make a recommendation on the Scheme.³⁶

Repayment of employee share scheme loans

Under the terms of an employee share scheme implemented prior to SILK's initial public offer, a Subsidiary in the SILK Group entered into limited recourse loan agreements with a number of employees and directors of the SILK Group, including Mr Boris Bosnich, Mr Martin Perelman and Mr Ivan Jacques.

The Scheme provides that in respect of any Scheme Shareholder to which SILK or one of its Subsidiaries has provided a loan for the purpose of their acquisition of Scheme Shares (or their acquisition of any shares in a Subsidiary of SILK which were exchanged for Scheme Shares) and that loan remains outstanding as at the Implementation Date, the obligation of API to pay Scheme Consideration will be satisfied by SILK paying from the trust account into which API has deposited the Scheme Consideration:

- to SILK or its Subsidiary (as applicable) the portion of the Scheme Consideration equal to the aggregate amount of the loan which SILK or its Subsidiary (as applicable) is owed by that Scheme Shareholder (in satisfaction of that outstanding loan); and
- as to the balance (if any) of the Scheme Consideration payable to that Scheme Shareholder under the Scheme, to that Scheme Shareholder in accordance with the terms of the Scheme.

(c) Implications for SILK Performance Rights and other equity arrangements if the Scheme does not become Effective

If the Scheme does not become Effective, SILK expects that:

- its existing incentive arrangements will remain in place subject to their existing terms and conditions; and
- it would put in place incentive arrangements for senior executives and key employees for future years similar to those in place prior to the announcement of the Scheme.

36. Following the exercise of the SILK Board's (excluding Mr Perelman) discretion, subject to the Scheme becoming Effective, SILK's Chief Executive Officer and Managing Director, Mr Martin Perelman, will be entitled to receive \$792,857.90 in connection with the cancellation of his unvested SILK Performance Rights. In addition, Mr Perelman will receive an incentive payment of \$87,412.50 (inclusive of superannuation), which is not conditional on the Scheme being implemented. These arrangements are described in more detail in Section 9.2. The SILK Board (excluding Mr Perelman) considers that, despite these arrangements, it is appropriate for Mr Perelman to make a recommendation on the Scheme given his role in the operation and management of SILK and that SILK Shareholders would wish to know Mr Perelman's views in relation to the Scheme. Mr Perelman also considers that it is appropriate for him to make a recommendation on the Scheme.

(d) Other arrangements

In connection with the Scheme and in recognition of the significant roles played by a number of SILK employees in connection with the ongoing operation of SILK's business (including in recognition of the additional work required by those employees in connection with the Scheme), those employees will each receive a one-off cash payment ('**2023 Incentive Payment**'). The 2023 Incentive Payments are not conditional on the Scheme being implemented, but are intended to be paid on the Implementation Date. In addition, some of those employees will receive a further one-off cash payment on the date that is 9 months after the Implementation Date to incentivise them to remain with SILK and continue to contribute to its success after implementation of the Scheme ('**2024 Incentive Payment**'). Payment of the 2024 Incentive Payment is subject to the Scheme becoming Effective and integration objectives being completed.

The maximum aggregate amounts of:

- the 2023 Incentive Payments is approximately \$489,787.50; and
- the 2024 Incentive Payments is approximately \$715,950.00,

in each case inclusive of SILK's obligations to make superannuation contributions in relation to the 2023 Incentive Payments and the 2024 Incentive Payments.

Mr Martin Perelman will receive a 2023 Incentive Payment of \$87,412.50 (inclusive of any superannuation contribution that may be payable to him on the 2023 Incentive Payment), which, as noted above, is not conditional on the Scheme being implemented but is intended to be paid on the Implementation Date. Mr Martin Perelman is not entitled to receive a 2024 Incentive Payment.

Please refer to section 9.3(c) for information regarding cash payments that SILK's company secretary and Non-Executive Directors are entitled to receive.

9.3 OTHER BENEFITS AND AGREEMENTS

(a) SILK Directors' interests in securities in the Wesfarmers Group

As at the Last Practicable Date, no SILK Director has a Relevant Interest in any securities in API or any of its Related Bodies Corporate.

(b) SILK Directors' dealings in securities in the Wesfarmers Group

No SILK Director has acquired or disposed of a Relevant Interest in any securities in API or any of its Related Bodies Corporate in the four-month period ending on the date immediately before the date of this Scheme Booklet.

(c) SILK Director and company secretary fees

As contemplated by SILK's Constitution, the SILK Board has approved that special exertion fees be paid to SILK's company secretary and each Non-Executive Director of SILK, in recognition of their increased workload and time commitment (over and above that required for SILK's ordinary business requirements) which are and have been required for considering and responding to, among other things, the proposals received for the acquisition of SILK.

This additional work includes overseeing the due diligence process, considering the offers, considering and negotiating the terms and conditions of the Scheme and associated issues and documents and overseeing the process for preparation of this Scheme Booklet and implementation of the Scheme. The amounts to be paid by SILK to SILK Non-Executive Directors and SILK's company secretary were determined by the SILK Board by reference to the additional work undertaken by those individuals and the SILK Board's assessment of reasonable remuneration for such work after receiving advice from Deloitte Tax Services Pty Ltd.

These special exertion fees are not conditional on the Scheme being implemented, but are intended to be paid on the Implementation Date.

09 Additional Information continued

Mr Martin Perelman will receive a 2023 Incentive Payment of \$87,412.50 (inclusive of any superannuation contribution that may be payable to him on the 2023 Incentive Payment), which, as noted in section 9.2(d) above, is not conditional on the Scheme being implemented but is intended to be paid on the Implementation Date. Further details in relation to the 2023 Incentive Payments are set out in section 9.2(d) above. Mr Martin Perelman is not entitled to receive a 2024 Incentive Payment or any special exertion fees that are payable to SILK Non-Executive Directors and SILK's company secretary.

The amount of the special exertion fees payable to each Non-Executive Director of SILK and SILK's company secretary is set out below:

Individual	Position	Special Exertion Fees	Additional Super-annuation Contribution	Total Entitlement
Mr Boris Bosnich	Chairman and Independent Non-Executive Director	\$100,000	\$11,000	\$111,000
Mr Martin Perelman	Chief Executive Officer and Managing Director	N/A	N/A	N/A
Ms Jacinta Caithness	Independent Non-Executive Director	\$20,000	\$2,200	\$22,200
Ms Sinead Ryan	Independent Non-Executive Director	\$20,000	\$2,200	\$22,200
Mr Andrew Cosh	Independent Non-Executive Director	\$20,000	\$2,200	\$22,200
Mr Richard Willson	Company Secretary	\$20,000	\$2,200	\$22,200
Total		\$180,000	\$19,800	\$199,800

(d) Agreements or arrangements connected with or conditional on the Scheme

Other than the matters described in Section 9.2 and this Section 9.3, there are no agreements or arrangements made between any SILK Director and any other person, including API, in connection with, or conditional on the outcome of, the Scheme.

SILK pays premiums in respect of a directors and officers insurance policy for the benefit of the SILK Directors and officers. SILK has also entered deeds of indemnity, access and insurance with each SILK Director and other officers, on customary terms.

Under clause 6.9 of the Scheme Implementation Deed:

- API undertakes that it will procure that SILK and each member of the SILK Group complies with any deed of indemnity, access and insurance (or equivalent) made by them in favour of their respective directors and officers who were in office prior to the Scheme becoming Effective;
- for a period of 7 years from the Implementation Date, API undertakes that it will ensure that the constitutions of SILK and each member of the SILK Group continue to contain rules which are no less favourable overall than the rules contained in those constitutions as at the date of the Scheme Implementation Deed that provide for each company to indemnify each of its directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the relevant company to any person other than a member of the SILK Group;
- API undertakes that it will arrange for SILK to put in place directors' and officers' run-off insurance cover for the current and former directors and officers of the SILK Group, with the same or substantially the same scope and terms as existing applicable insurance policies in place, for no less than 7 years following the Implementation Date (limited to circumstances in respect of current and former directors and officers of the SILK Group on and from 11 December 2020); and

- API undertakes that it will not cancel or materially amend the SILK Group existing directors' and officers' run-off insurance cover in place (and paid for) for the period prior to 11 December 2020.

Clause 12.1 of the Scheme Implementation Deed also provides for certain releases by API of each current and former director, officer, employee and certain professional advisers of the SILK Group, including in connection with any breach of any covenant, representation or warranty given by SILK under the Scheme Implementation Deed.

(e) Benefits in connection with retirement from office

Other than the matters described in Section 9.2 and this Section 9.3, there is no payment or other benefit that is proposed to be made or given to any SILK Director, secretary or executive officer of SILK (or any of its Related Bodies Corporate) as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in SILK (or any of its Related Bodies Corporate) as a result of the Scheme, other than as set out in their existing employment agreement or as a result of them participating in the Scheme as a Scheme Shareholder.

Under the employment agreements entered into by SILK with Mr Martin Perelman (Chief Executive and Managing Director), Mr Ivan Jacques (Chief Financial Officer) and Mr Daryl Cotter (Chief Operating Officer):

- Mr Martin Perelman's employment with SILK may be terminated by either SILK or Mr Martin Perelman upon giving 12 months' notice to the other party;
- Mr Ivan Jacques' employment with SILK may be terminated by either SILK or Mr Ivan Jacques upon giving 6 months' notice to the other party; and
- Mr Daryl Cotter's employment with SILK may be terminated by either SILK or Mr Daryl Cotter upon giving 6 months' notice to the other party.

The employment of Mr Martin Perelman, Mr Ivan Jacques or Mr Daryl Cotter may also be terminated by SILK without notice in certain circumstances including serious misconduct. Any payments made to Mr Martin Perelman, Mr Ivan Jacques or Mr Daryl Cotter upon any termination of their respective employment with SILK are limited to such amounts as would not require shareholder approval (including under Part 2D.2, Division 2 or Chapter 2E of the Corporations Act or the ASX Listing Rules).

(f) Benefits from API

None of the SILK Directors has agreed to receive, or is entitled to receive, any benefit from API or any of its Related Bodies Corporate, which is conditional on, or is related to, the Scheme other than in their capacity as a SILK Shareholder.

(g) Interests of SILK Directors in contracts with API

None of the SILK Directors has any interest in any contract entered into by API or any of its Related Bodies Corporate.

9.4 SCHEME IMPLEMENTATION DEED

(a) Introduction

On 26 June 2023, SILK and API entered into the Scheme Implementation Deed, under which the parties have agreed to implement the Scheme between SILK and Scheme Shareholders and which governs the conduct of the Scheme. A full copy of the Scheme Implementation Deed was attached to SILK announcement to the ASX relating to the Scheme dated 26 June 2023.

A copy of the Scheme Implementation Deed can also be obtained from SILK's website at <https://silklaser.com.au/investors/>.

A summary of the Scheme Implementation Deed appears below in this Section 9.4.

(b) Scheme Consideration

If the Scheme is implemented, Scheme Shareholders will receive the Scheme Consideration (payable by API) of \$3.35 per SILK Share, less the cash amount of any Special Dividend paid by SILK on or prior to the Implementation Date.

(c) Special Dividend

SILK may (in its absolute discretion) decide to pay a dividend of up to \$0.10 per SILK Share (and which may, at SILK's election as contemplated by the terms of the Scheme Implementation Deed, be fully franked) to SILK Shareholders who hold SILK Shares on the Special Dividend Record Date, provided that:

- the Special Dividend Record Date must be at least one day before the Scheme Record Date;
- the Special Dividend Payment Date must be on or before the Implementation Date;
- the SILK franking account must not be in deficit at any time after the payment of the Special Dividend due to the payment of the Special Dividend and/or tax refunds received by SILK, nor prior to the declaration of, or resolution to pay, the Special Dividend;
- the Special Dividend is to be paid from accumulated profits, retained earnings or distributable reserves (or a combination of all or some of them) of the SILK Group existing immediately prior to the declaration of that dividend; and
- the Special Dividend is to be paid in accordance with the Corporations Act.

(d) Conditions

Implementation of the Scheme is subject to the satisfaction or waiver (if permitted) of the following Conditions. The Conditions in paragraphs (iv) and (x) below cannot be waived. SILK and API have agreed to use their reasonable endeavours to satisfy, or procure the satisfaction of, the Conditions for which they are responsible.

As far as SILK is aware, immediately before the date of this Scheme Booklet no circumstances have occurred which will cause any of the Conditions not to be satisfied or to become incapable of satisfaction. These matters will continue to be assessed until the latest time each Condition Precedent is required to be satisfied, which for many of the Conditions is 8.00am on the Second Court Date. A summary of the Conditions and status in respect of their satisfaction as at the date of this Scheme Booklet follows:

Condition	Status
(i) ACCC Condition: by 8.00am on the Second Court Date, API has received notice in writing from the ACCC stating, or stating to the effect, that either (a) it does not intend to undertake public inquiry in respect of; or (b) it has no objection to, and does not intend to take any action to prevent or oppose, the acquisition by API of all of the Scheme Shares under the Scheme unconditionally or subject to conditions acceptable to API (in its sole discretion) and such notice has not been withdrawn, suspended or revoked before 8.00am on the Second Court Date.	As SILK announced to the ASX on 10 August 2023, SILK has been advised that API has received written confirmation from the ACCC that the ACCC does not intend to conduct a public review of the proposed acquisition of SILK by API. The ACCC Condition has therefore been satisfied, subject to the ACCC not withdrawing, suspending or revoking its written confirmation.

Condition	Status
(ii) NZCC Condition: by 8.00am on the Second Court Date, API has received notice in writing from the NZCC stating, or stating to the effect, that either (a) it does not intend to undertake further inquiries in relation to; or (b) it has no objection to, and does not intend to take any action to prevent or oppose, the acquisition by API of all of the Scheme Shares under the Scheme unconditionally or subject to conditions acceptable to API (in its sole discretion) and such notice has not been withdrawn, suspended or revoked before 8.00am on the Second Court Date, or API has received clearance from the NZCC pursuant to section 66 of the <i>Commerce Act 1986</i> (NZ) in respect of the acquisition by API of all of the Scheme Shares under the Scheme before 8.00am on the Second Court Date.	As SILK announced to the ASX on 10 August 2023, API has advised SILK that API has received written confirmation from the NZCC that the NZCC, having reviewed and considered a submission lodged by API, does not intend to consider the acquisition further. API has informed SILK that the NZCC Condition has been satisfied, subject to the NZCC not withdrawing, suspending or revoking its written confirmation.
(iii) Independent Expert's Report: the Independent Expert concludes in the Independent Expert's Report that the Scheme is in the best interests of SILK Shareholders (and does not change that conclusion by 8.00am on the Second Court Date).	As at the date of this Scheme Booklet, the Independent Expert has concluded that the Scheme is fair and reasonable to, and therefore in the best interests of, SILK Shareholders in the absence of a superior proposal.
(iv) Shareholder approval: SILK Shareholders approve the Scheme Resolution by the Requisite Majorities at the Scheme Meeting.	The Scheme Meeting is scheduled to be held on Friday, 10 November 2023.
(v) No Material Adverse Change: no Material Adverse Change occurs, is announced or becomes known to API between the Announcement Date and 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, SILK is not aware of any circumstances which will cause this Condition not to be satisfied.
(vi) No Prescribed Occurrence: no Prescribed Occurrence has occurred between the Announcement Date and 8.00am on the Second Court Date.	As at the date of this Scheme Booklet, SILK is not aware of any circumstances which will cause this Condition not to be satisfied.
(vii) SILK Performance Rights: SILK has taken all necessary steps by 8.00am on the Second Court Date to ensure that all SILK Performance Rights will vest, lapse, be cancelled or will otherwise be dealt with in accordance with clause 8 of the Scheme Implementation Deed (excluding the actual vesting, lapsing or cancellation pursuant to that clause).	As at the date of this Scheme Booklet, SILK is not aware of any circumstances which will cause this Condition not to be satisfied.
(viii) Representations and warranties: the representations and warranties given by SILK and API to each other under the Scheme Implementation Deed are true and correct in all material respects as at the time or times they are given or made.	As at the date of this Scheme Booklet, SILK is not aware of any circumstances which will cause this Condition not to be satisfied.

09 Additional Information continued

Condition	Status
(ix) No restraints: By 8.00am on the Second Court Date, there is not in effect any temporary, preliminary or final order, decision or decree issued by any court of competent jurisdiction or Government Agency which restrains or prohibits the Scheme.	As at the date of this Scheme Booklet, SILK is not aware of any circumstances which will cause this Condition not to be satisfied.
(x) Court approval: the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.	An order of the Court in accordance with section 411(4)(b) of the Corporations Act will be sought at the Second Court Hearing.
(xi) ASIC and ASX: By 8.00am on the Second Court Date, ASIC and ASX issue or provide any consents or approvals, or have done any other acts, which API and SILK agree in writing are reasonably necessary or desirable to implement the Scheme, and those consents, approvals or other acts have not been withdrawn or revoked at that time.	As at the date of this Scheme Booklet, SILK is not aware of any circumstances which will cause this Condition not to be satisfied.
(xii) Other regulatory approvals: By 8.00am on the Second Court Date, all other approvals of a Government Agency which SILK and API agree in writing are necessary or desirable to implement the Scheme are obtained, and those approvals are not subject to conditions that are unacceptable to API and have not been withdrawn or revoked.	As at the date of this Scheme Booklet, no such additional Government Agency approvals have been agreed between SILK and API as being necessary or desirable, and SILK is not aware of any circumstances which will cause this Condition not to be satisfied.

(e) Material Adverse Change

The Material Adverse Change condition will be triggered if a Material Adverse Change occurs, is announced or becomes known to API between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date.

In summary, and subject to certain exceptions, a Material Adverse Change includes an event (or a series of such events) which occurs after the date of the Scheme Implementation Deed that has or would be considered reasonably likely to have the effect of:

- a diminution in the SILK Group's consolidated net assets, taken as a whole, of at least \$10 million; or
- a diminution in the SILK Group's consolidated EBITDA, taken as a whole for any financial year, of at least \$1.75 million.

SILK is required to promptly notify API in writing of events, facts, matters or circumstances which would or would be reasonably expected to either constitute a Material Adverse Change of which SILK becomes aware.

(f) Termination

Either SILK or API may terminate the Scheme Implementation Deed:

- if a Condition has not been satisfied or waived by the required date, or the Scheme has not become Effective by the End Date, and the parties cannot otherwise reach an agreement, after consulting in good faith, to enable the Scheme to proceed (**Condition Termination Right**); or
- at any time before 8.00am on the Second Court Date, if the other party commits a breach of the Scheme Implementation Deed that is material in the context of the Scheme taken as a whole (including in relation to any breaches of SILK's exclusivity or SILK Board recommendation obligations being deemed to be material in the context of the Scheme taken as a whole) and, if applicable, the breach has not been remedied, to the terminating party's reasonable satisfaction, within the required period (**Material Breach Termination Right**).

API may terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court Date if:

- any SILK Director withdraws or adversely changes his or her recommendation or voting intention statement in relation to the Scheme, makes any public statement that he or she no longer recommends the Scheme or recommends, endorses or supports a Competing Proposal;
- a Third Party acquires a Relevant Interest in more than 20% of the SILK Shares and states publicly that it does not intend to vote in favour of the Scheme Resolution; or
- SILK enters into an agreement to give effect to a Competing Proposal.

SILK may terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court Date if:

- a majority of the SILK Directors wish to (or do) publicly withdraw or adversely change their recommendation in support of the Scheme or recommend a Competing Proposal, in circumstances where they are permitted to do so (as to which see Section 9.4(g)); or
- the Independent Expert changes its conclusion that the Scheme is in the best interests of SILK Shareholders.

Please refer to Section 9.4(k) for an overview of when the Break Fee may be payable by SILK or API.

(g) SILK Board recommendation

SILK has represented and warranted to API that each SILK Director has confirmed that:

- his or her recommendation in respect of the Scheme is that SILK Shareholders vote in favour of the Scheme Resolution at the Scheme Meeting; and
- he or she intends to vote, or cause to be voted, all SILK Shares held or controlled by that SILK Director (if any), in favour of the Scheme Resolution at the Scheme Meeting,

in each case subject to:

- no Superior Proposal emerging; and
- the Independent Expert concluding (and continuing to conclude) that the Scheme is in the best interests of SILK Shareholders.

SILK must procure that no SILK Director withdraws, qualifies, or adversely changes his or her recommendation or voting intention as set out above, unless:

- SILK has received a Competing Proposal and the SILK Board has determined (after API's matching rights have been exercised) that the Competing Proposal constitutes a Superior Proposal; or
- the Independent Expert concludes that the Scheme is not in the best interests of SILK Shareholders or, having previously concluded that the Scheme is in the best interests of SILK Shareholders, changes that conclusion.

A Break Fee may be payable by SILK in certain circumstances where there is a change of recommendation by the SILK Board or Directors (described at Section 9.4(k) below).

(h) Conduct of business

Subject to certain exceptions, until the Implementation Date, SILK must (amongst other things):

- conduct, and procure that each member of the SILK Group conducts its businesses in the ordinary course, consistent with past practice and in accordance with applicable laws and regulatory authorisations;
- keep API reasonably informed of, and reasonably consider API's views about, material developments in the business of the SILK Group;
- promptly notify API in writing of certain material matters, including any Material Adverse Change;
- make reasonable efforts to keep available the services of the current officers and employees of the SILK Group, other than in respect of staff turnover in the ordinary course;
- make reasonable efforts to maintain and preserve the SILK Group's relationships with its franchisees, joint venture partners, financiers, partners, customers, suppliers, Government Agencies, licensors, licensees and others with whom it has business dealings, other than in respect of actions arising out of the enforcement or termination of such arrangements in the ordinary course;
- make reasonable efforts to comply in all material respects with all material contracts to which any member of the SILK Group is a party;
- make reasonable efforts to maintain and preserve the value of its business and assets, including maintaining (and, where necessary, use reasonable efforts to renew) the insurance policies and licences held by the SILK Group;
- ensure that the SILK Group complies with certain other specific restrictions regarding the conduct of its business as listed in the Scheme Implementation Deed; and
- ensure that no Prescribed Occurrence occurs.

(i) Representations and warranties

The Scheme Implementation Deed contains customary and other representations and warranties by each of SILK and API, including that API will have available to it sufficient cash amounts (whether from internal cash resources or external funding arrangements) to satisfy API's obligation to pay the Scheme Consideration in accordance with its obligations under the Scheme Implementation Deed.

(j) Exclusivity

(i) No Shop

During the Exclusivity Period, SILK must not, and must ensure that its Representatives do not, directly or indirectly solicit, encourage, initiate or invite any enquiries, expressions of interest, offers, discussions, negotiations or proposals in relation to (or with a view to obtaining any offer, proposal or expression of interest from any person in relation to), or which may reasonably be expected to encourage or lead to, an actual, proposed or potential Competing Proposal (or which may otherwise lead to the Scheme not being completed), or solicit, initiate or encourage any party (other than API or its Representatives) to undertake due diligence on SILK or any member of the SILK Group, or any of their business and operations, in connection with or with a view to formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

(ii) No Talk

Subject to the fiduciary exception (see paragraph (iv) below), during the Exclusivity Period, SILK must not, and must ensure that its Representatives do not negotiate, accept or enter into or offer or agree to negotiate, accept or enter into or facilitate or participate in or continue any negotiations or discussions with any other person regarding an actual, proposed or potential Competing Proposal or any agreement, understanding or arrangement that may be reasonably expected to encourage or lead to an actual, proposed or potential Competing Proposal or which may otherwise lead to the Scheme not being completed, even if that person's Competing Proposal was not directly or indirectly solicited, invited, encouraged or initiated by SILK or any of its Representatives or the person has publicly announced the Competing Proposal.

(iii) No Due Diligence

Subject to the fiduciary exception (see paragraph (iv) below), during the Exclusivity Period, SILK must not, and must ensure that its Representatives do not, directly or indirectly make available to any other person (other than API or its Representatives) or permit such person to receive any non-public information relating to the SILK Group, in connection with or with a view to obtaining or which may reasonably be expected to encourage or lead to such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

(iv) Fiduciary Exception

The 'No Talk' and 'No Due Diligence' restrictions do not apply to the extent that the relevant clause restricts SILK or the SILK Board (or SILK's Representatives) from taking or refusing to take any action with respect to an actual, proposed or potential Competing Proposal (which was not solicited, encouraged, initiated or invited by SILK or its Representatives in breach of the 'No Shop' restriction) provided that the SILK Board determines, acting in good faith:

- after consulting with its financial advisers, that the actual, proposed or potential Competing Proposal is, or may reasonably be expected to lead to, a Superior Proposal; and
- after receiving written advice from its external legal advisers, that compliance with 'No Talk' and/or 'No Due Diligence' restrictions (as applicable), or failure to respond to the actual, proposed or potential Competing Proposal, would (or may be reasonably likely to) be contrary to the fiduciary or statutory duties or obligations of the SILK Directors.

(v) Termination of existing discussions

SILK must terminate any negotiations or discussions with any Third Party existing as at the time of execution of the Scheme Implementation Deed in respect of a Competing Proposal.

(vi) Notification rights

During the Exclusivity Period, SILK must promptly notify API as soon as reasonably practicable (and in any event within 24 hours) if SILK or any of its Representatives:

- is approached by any person in relation to an actual, proposed or potential Competing Proposal and that notice must include all material details of the Competing Proposal, including (in each case to the extent known by SILK or any of its employees, officers or Advisers) the key terms of any Competing Proposal and the identity of the proponent(s) of any Competing Proposal;
- receives any request for information relating to SILK or any of its Related Entities or any of their businesses or operations or any request for access to the books or records of SILK or any of its Related Entities, which SILK has reasonable grounds to suspect may relate to an actual, proposed or potential Competing Proposal and must disclose to API the identity of the party making the request and details of the request;

- provides any non-public information relating to SILK or any of its Related Entities or any of their businesses or operations to any person in connection with or for the purposes of a current or future Competing Proposal; and
- become aware of any material developments in relation to any actual, proposed or potential Competing Proposal, including in respect of any of the information previously notified to API.

(i) Matching rights

During the Exclusivity Period, SILK:

- must procure that no SILK Director withdraws, changes, or qualifies his/her recommendation of the Scheme and that no SILK Director publicly recommends a Competing Proposal; and
- must not enter into any agreement, arrangement or understanding (whether or not in writing, but excluding a confidentiality agreement) pursuant to which a Third Party, SILK or both proposes or propose to undertake or give effect to a Competing Proposal,

unless:

- the SILK Board determines after consultation with its legal and financial advisers, that the Competing Proposal is, or following the taking of reasonable steps would likely be, a Superior Proposal;
- SILK has given API written notice (**Matching Right Notice**) of the key terms of the Competing Proposal (including the identity of the person(s) who made the Competing Proposal, and the material terms and conditions of the Competing Proposal, in each case to the extent known by SILK); and
- API does not, within 5 Business Days after SILK gives the Matching Right Notice, make an irrevocable written offer to SILK to increase the Scheme Consideration or otherwise improve the terms of the Scheme (**API Counterproposal**) that the SILK Board determines (acting in good faith, and after consultation with its legal and financial advisers) would produce an outcome for SILK Shareholders that is at least as favourable to them as the outcome that would be produced by the Competing Proposal.

If, following receipt of a Matching Right Notice, API makes an API Counterproposal before the expiry of the 5 Business Day period referred to above, SILK must procure that the SILK Board promptly considers the API Counterproposal, to determine whether, acting in good faith, the API Counterproposal would produce an outcome for SILK Shareholders that is at least as favourable to them as the outcome that would be produced by the Competing Proposal (**Matching Counterproposal**).

Following that determination, SILK must procure that the SILK Board promptly, and in any event within 1 Business Day, notifies API of the determination in writing, stating reasons for that determination.

If the determination is that the API Counterproposal is a Matching Counterproposal, for a period of 3 Business Days after SILK delivers to API the notice referred to directly above):

- SILK must not provide any due diligence information to the person making the Competing Proposal (or to their representatives);
- API and SILK must promptly agree such matters (including, if applicable, amendments to this document and the Scheme) as are reasonably necessary to give effect to the Matching Counterproposal; and
- subject to the parties reaching such agreement, SILK must use all reasonable endeavours to procure that each of the SILK Directors continues to recommend the Scheme (as modified by the API Counterproposal) to SILK Shareholders (in the absence of a Superior Proposal and the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders).

(k) Break Fee

SILK must pay API a Break Fee of \$1,779,559.43 plus any GST within 10 Business Days of receiving a written demand given in accordance with the Scheme Implementation Deed if:

- prior to the End Date, any SILK Director publicly:
 - withdraws or adversely changes their recommendation or voting intention;
 - makes any public statement to the effect that the Scheme is not, or is no longer, recommended,except:
 - where the Independent Expert concludes in the Independent Expert’s Report that the Scheme is not in the best interests of SILK Shareholders prior to 5.00pm on the Business Day before the Second Court Date, except where the reason for that conclusion is a Competing Proposal; or
 - in circumstances where SILK has validly terminated the Scheme Implementation Deed pursuant to the Condition Termination Right or the Material Breach Termination Right referred to in Section 9.4(f) above.
- at any time before termination of the Scheme Implementation Deed, SILK enters into any agreement with a Third Party in respect of a Competing Proposal (excluding a confidentiality agreement) under which that Third Party and SILK agree to undertake or give effect to such Competing Proposal;
- at any time before termination of the Scheme Implementation Deed, a Competing Proposal (of the type referred to in paragraph (a)(i) or (a)(iii) of the definition of “Competing Proposal”) (**Relevant Competing Proposal**) is made or announced by a Third Party and within 12 months thereafter:
 - that Relevant Competing Proposal or another Competing Proposal (of the type referred to in paragraph (a)(i) or (a)(iii) of the definition of “Competing Proposal”) is completed, implemented or consummated;
 - a Third Party acquires Control of, or merges with, SILK; or
 - a Third Party acquires Voting Power of (or an economic interest in) 50% or more of SILK Shares or acquires or obtains an economic interest in all or a substantial part of the assets of the SILK Group;except:
 - where the Independent Expert concludes in the Independent Expert’s Report that the Scheme is not in the best interests of SILK Shareholders or withdraws its Independent Expert’s Report prior to 5.00pm on the Business Day before the Second Court Date, except where the reason for that conclusion or withdrawal is a Competing Proposal;
 - in circumstances where SILK has validly terminated the Scheme Implementation Deed pursuant to the Material Breach Termination Right referred to in Section 9.4(f) above; or
 - where neither of the following occurs in respect of any Relevant Competing Proposal made or announced by a Third Party after the date of the Scheme Implementation Deed and before its termination:
 - › the SILK Board does not invoke, and take actions in reliance on, the fiduciary exception referred to in Section 9.4(j)(iv) above in respect of the Relevant Competing Proposal after the date of the Scheme Implementation Deed and before its termination; or
 - › the Relevant Competing Proposal is completed, implemented or consummated within the 12 months after termination of the Scheme Implementation Deed; or

- API terminates the Scheme Implementation Deed due to:
 - SILK's breach of the Scheme Implementation Deed (where that breach is material in the context of the Scheme, taken as a whole, and which has not been remedied); or
 - a SILK Director withdrawing or adversely changing his or her recommendation or voting intention statement in relation to the Scheme, or making any public statement that he or she no longer recommends the Scheme or recommends, endorses or supports a Competing Proposal; or
 - SILK entering into an agreement with a Third Party in respect of a Competing Proposal (excluding a confidentiality agreement) under which that Third Party and SILK agree to undertake or give effect to such Competing Proposal.

API must pay SILK a reverse Break Fee of \$1,779,559.43 plus any GST if SILK terminates the Scheme Implementation Deed due to API's breach of the Scheme Implementation Deed where that breach is material in the context of the Scheme (taken as a whole) and which has not been remedied.

(I) Deed Poll

API has executed the Deed Poll in favour of the Scheme Shareholders under which API covenants to provide the Scheme Consideration in accordance with the Scheme.

Pursuant to the Deed Poll, API must, no later than 12 noon on the day that is the Business Day before the Implementation Date, pay or procure the payment into a trust account, operated by SILK as trustee for the Scheme Shareholders for the purpose of paying the Scheme Consideration to Scheme Shareholders, an amount in cleared funds equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders.

Under the Scheme, each Scheme Shareholder irrevocably appoints SILK as its attorney and agent to enforce the Deed Poll against API.

A copy of the Deed Poll is set out in Annexure C of this Scheme Booklet.

9.5 ASIC RELIEF

Section 250N of the Corporations Act requires SILK to hold its AGM for the financial year ended 30 June 2023 by 30 November 2023. SILK applied to ASIC under section 250P of the Corporations Act to extend the period within which it would otherwise be required to hold its AGM for the financial year ended 30 June 2023. SILK has applied for relief to hold its AGM on a date no later than 31 January 2024. Based on the currently anticipated Scheme timetable, the Scheme is proposed to be implemented on Wednesday, 29 November 2023, after which no AGM would be required under Section 250N(4) of the Corporations Act.

ASIC has provided a decision in principle to grant this relief.

9.6 ASX WAIVERS

SILK has applied for, and the ASX has granted SILK, a waiver of ASX Listing Rule 6.23.2 to the extent necessary to permit the cancellation of the SILK Performance Rights as set out in Section 9.2 of this Scheme Booklet.

9.7 FORMAL DISCLOSURES AND CONSENTS

The following parties have given and have not, before the date of this Scheme Booklet, withdrawn their written consent:

- to be named in this Scheme Booklet in the form and context in which they are named; and
- if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appear in this Scheme Booklet.

Name	Role
Kain Lawyers	Legal adviser to SILK
Highbury Partnership	Financial adviser to SILK
Wilsons Corporate Finance Limited	Co-adviser to SILK
Grant Thornton Audit Pty Ltd	Auditors to SILK
Lonergan Edwards and Associates Limited	Independent Expert
Deloitte Tax Services Pty Ltd	Tax adviser to SILK
Computershare Investor Services Pty Limited	Share Registry

API:

- has assumed and accepted responsibility for the preparation and inclusion of the API Information; and
- has given and has not, before the date of this Scheme Booklet, withdrawn its written consent to the inclusion of the API Information in the form and context in which it appears in this Scheme Booklet.

Lonergan Edwards & Associates Limited has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it appears in Annexure A and references to the Independent Expert's Report in the form and context in which they appear.

Deloitte Tax Services Pty Ltd has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of the information set out in Section 8 of this Scheme Booklet in the form and context in which it appears in Section 8 of this Scheme Booklet.

Each person named above:

- has not authorised or caused the issue of the Scheme Booklet;
- does not make or purport to make any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than API in respect of the API Information, Lonergan Edwards & Associates Limited in respect of the Independent Expert's Report and Deloitte Tax Services Pty Ltd in respect of the information set out in Section 8 of this Scheme Booklet; and
- to the maximum extent permitted by law, disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Scheme Booklet, other than API in respect of the API Information and Lonergan Edwards & Associates Limited in respect of the Independent Expert's Report.

9.8 MATERIAL LITIGATION

As announced in the SILK Appendix 4E and audited financial report for the year ended 30 June 2023 released to the ASX on 30 August 2023, the total amount payable for the acquisition of Eden Laser Clinics has not been agreed and is currently the subject of a legal dispute impacting the final completion accounts. The vendor of the Eden Laser Clinics business is claiming that further amounts are payable in addition to the amounts reported in the SILK Appendix 4E and audited financial report for the year ended 30 June 2023. The SILK Board does not believe additional amounts will be payable.

To the best knowledge of the SILK Directors and senior management, SILK is not involved in any other litigation or dispute which is material in the context of SILK and its Subsidiaries taken as a whole.

9.9 TRANSACTION COSTS

SILK estimates that it will incur approximately \$6.0 million (excluding GST and disbursements) in external Transaction Costs which relate to the Scheme. This includes adviser fees (including for SILK's financial, legal and tax advisers), the Independent Expert's fees, registry, printing and mailing costs and expenses associated with convening and holding the Scheme Meeting. Of this, approximately \$2.4 million (excluding GST and disbursements) will be incurred regardless of whether or not the Scheme is implemented, excluding any Break Fee that may be payable to API.

9.10 OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION IN RELATION TO THE SCHEME

Except as set out in this Scheme Booklet, so far as the SILK Directors are aware, there is no information material to the making of a decision by a SILK Shareholder in relation to the Scheme, being information that is within the knowledge of any SILK Director or director of any Related Body Corporate of SILK, as at the date of this Scheme Booklet, which has not been disclosed to SILK Shareholders.

9.11 SUPPLEMENTARY INFORMATION

SILK will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- a material statement in the Scheme Booklet is or becomes false or misleading in a material respect;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, SILK may circulate and publish any supplementary document by:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to SILK Shareholders at their registered address as shown in the Register, or by email for SILK Shareholders who have elected to receive communications electronically; or
- posting a statement on SILK's website at <https://silklaser.com.au/investors/>,

as SILK, in its absolute discretion, considers appropriate.

10 Glossary

10.1 DEFINITIONS

The meaning of the terms used in this Scheme Booklet are set out below.

Term	Definition
ACCC	the Australian Competition and Consumer Commission.
ACCC Condition	the Condition described in Section 9.4(d)(i).
Adviser	in relation to an entity, means a financial, corporate, legal, or other expert adviser or consultant, who provides advisory or consultancy services in a professional capacity in the ordinary course of its business and has been engaged in that capacity in connection with the Scheme by the entity.
Announcement Date	26 June 2023, being the date of announcement of the Scheme to the ASX.
API	Australian Pharmaceutical Industries Pty Limited (ACN 000 004 320).
API Information	the information about API contained in: <ul style="list-style-type: none">• the following questions and answers in Section 2 of this Scheme Booklet:<ul style="list-style-type: none">– “Who is API?”;– “Who is Wesfarmers?”;– “Does the Wesfarmers Group own SILK Shares?”;– “What are API’s intentions if the Scheme is implemented?”; and– “How is API funding the Scheme Consideration?”;• Section 6; and• Section 10 – the definitions of “API”, “Wesfarmers”, “Wesfarmers Group” and “API Information”.
API Initial Proposal	the indicative, non-binding and conditional proposal from API to acquire 100% of the shares in SILK for \$3.15 per SILK Share, by way of a scheme of arrangement, announced by SILK on 19 April 2023.
ASIC	the Australian Securities and Investments Commission.
Associates	has the meaning given in section 12 of the Corporations Act.

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Term	Definition
ASX	the Australian Securities Exchange or ASX Limited (ACN 008 624 691), as the context requires.
ASX Listing Rules	the listing rules of ASX.
ATO	the Australian Taxation Office.
Australian Accounting Standards	the accounting standards made by the Australian Accounting Standards Board in accordance with the Corporations Act, and the requirements of that Act relating to the preparation and content of accounts.
Break Fee	<p>\$1,779,559.43 (plus any GST).</p> <p>The circumstances in which the Break Fee will be payable by either SILK or API are summarised in Section 9.4(k) of this Scheme Booklet.</p>
Business Day	a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney, Australia.
CGT	Australian capital gains tax.
CHESS	the clearing house electronic sub-register system for the electronic transfer of securities operated by ASX Settlement Pty Limited (ACN 008 504 532), which provides for the electronic transfer, settlement and registration of securities.
Class Ruling	has the meaning given in Section 8 of this Scheme Booklet.
Competing Proposal	<p>any expression of interest or intent, proposal, offer from a Third Party in respect of any actual, proposed, or potential transaction, agreement or arrangement which, if entered into or completed substantially in accordance with its terms:</p> <p>(a) would mean or result in a Third Party (either alone or together with one or more other parties) directly or indirectly:</p> <ul style="list-style-type: none"> (i) acquiring Control of, or merging with, SILK or any member of the SILK Group which holds all or a substantial part of a material part of the SILK Group; (ii) acquiring or having a right to acquire a legal, beneficial or economic interest (including an economic interest by way of an equity swap, contract for difference or similar transaction or arrangement) or a Relevant Interest or Voting Power in 10% or more of the SILK Shares (and where that Third Party already has Voting Power or legal or economic interest of more than 10%, that party acquires a further 1% or more); or (iii) acquiring, becoming the holder of or having a right to acquire or an economic interest in all or a substantial part of the property or assets of the SILK Group taken as a whole,

Term	Definition
Competing Proposal continued	whether by way of takeover bid, members' or creditors' scheme of arrangement, shareholder approved acquisition, capital reduction or distribution, buy-back, sale or purchase of shares, other securities or assets, assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), deed of company arrangement, any debt for equity arrangement or other transaction or arrangement; or (b) that otherwise requires SILK to abandon, or otherwise fail to proceed with the Scheme on the basis set out in the Scheme Implementation Deed.
Conditions	the conditions precedent to implementation of the Scheme set out in clause 3.1 of the Scheme Implementation Deed.
Control	means, in relation to a corporation: <ul style="list-style-type: none"> • the ability to control, directly or indirectly, the composition of the board of directors of the corporation; • the ability to exercise or control the exercise of the rights to vote in relation to more than 50% of the voting shares or other form of voting equity in the corporation; • the ability to dispose or exercise control over the disposal of more than 50% of the shares or other form of equity in the corporation; or • the capacity to determine, directly or indirectly, the outcome of decisions about the financial and operating policies of the corporation.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	the <i>Corporations Regulations 2001</i> (Cth).
Court	the Federal Court of Australia (New South Wales Registry) or such other court of competent jurisdiction under the Corporations Act agreed to in writing between SILK and API.
Clear Skincare	means (as the context permits) Clearskincare Clinics Australia Pty Ltd ABN 74 608 881 170, a wholly owned Subsidiary of API, or the Clear Skincare business operated by Clearskincare Clinics Australia Pty Ltd and its Subsidiaries.
Data Room	the online data room established by SILK in connection with the Scheme.
Deed Poll	the Deed Poll executed by API on 29 September 2023 under which API covenants in favour of the Scheme Shareholders to perform the actions attributed to it under the Scheme, including to provide or procure the provision of the Scheme Consideration in accordance with the terms of the Scheme. A copy of the executed Deed Poll is included in Annexure C of this Scheme Booklet.

10 Glossary continued

Term	Definition
Disclosure Materials	<ul style="list-style-type: none">• the documents and information contained in the Data Room; and• the written responses provided by or on behalf of SILK to requests for information made by or on behalf of API, immediately prior to execution of the Scheme Implementation Deed.
Disclosure Letter	the letter so titled from SILK provided to API before the execution of the Scheme Implementation Deed.
EBITDA	for the purposes of the Scheme Implementation Deed (including the summary in section 9.4 and the definition of 'Material Adverse Change' in this section 10.1), means earnings of the SILK Group before interest, tax, depreciation and amortisation (before the application of Accounting Standard AASB16 which, for clarity, results in rental expenses under relevant leases being included within EBITDA) calculated in accordance with the accounting policies and practices applied by SILK as at 26 June 2023. EBITDA represents Adjusted EBITDA (as defined in SILK's FY2022 Annual Report and financial disclosure presentation materials, which includes income from franchise revenue, and share of associates) less the IFRS16 Adjustment required for rent expenses.
Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
Equity Incentive Plan	the SILK Laser Australia Limited equity incentive plan, as released to the ASX on 14 December 2020.
End Date	1 April 2024 or such later date as agreed in writing between the parties for the purposes of the Scheme Implementation Deed.
Exclusivity Period	the period from the date of the Scheme Implementation Deed until the earlier of: <ul style="list-style-type: none">• the termination of the Scheme Implementation Deed under clause 13 of that document; and• the End Date.
Fairly Disclosed	in relation to a matter, such matter being disclosed in sufficient detail to enable a reasonable person experienced in M&A transactions to identify the nature and scope of the relevant matter.
Financial Year or FY	SILK's financial year, which commences on 1 July and ends on the following 30 June.

Term	Definition
Government Agency	any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel).
GST	has the meaning given in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
Implementation Date	the fifth Business Day after the Scheme Record Date, which is expected to be Wednesday, 29 November 2023, or such other date as API and SILK may agree in writing.
Independent Expert	Loneragan Edwards & Associates Limited, being the independent expert appointed by SILK in respect of the Scheme.
Independent Expert's Report	the report by the Independent Expert set out in Annexure A of this Scheme Booklet.
Last Practicable Date	Wednesday, 27 September 2023.
Material Adverse Change	<p>a matter, event or circumstance (including a one-off or non-recurring event) that occurs, is announced or becomes known to API after 26 June 2023 (Specified Event) where that matter, event or circumstance has, has had, or is reasonably likely to have, either individually, or when aggregated with any other Specified Events, the effect (net of all insurance proceeds received by the SILK Group) of:</p> <ul style="list-style-type: none"> • diminishing the consolidated EBITDA of SILK Group taken as a whole for any financial year by at least \$1,750,000 against what it would reasonably be expected to have been but for that Specified Event; or • diminishing the consolidated net assets of the SILK Group, taken as a whole (calculated in accordance with the accounting policies and practices applied by SILK as at 26 June 2023) by an amount of \$10,000,000 or more; <p>in each case other than matters, events or circumstances:</p> <ul style="list-style-type: none"> • expressly required or expressly permitted by the Scheme Implementation Deed or the Scheme; • Fairly Disclosed in the Disclosure Materials or the Disclosure Letter; • Fairly Disclosed by SILK in any document lodged with ASX by SILK in the 24 months prior to the date of the Scheme Implementation Deed; • that occur with the written consent, or at the written request, of API or any of its Related Bodies Corporate; • relating to payment of any Transaction Costs or GST in respect of any Transaction Costs in respect of which a reasonable estimate of, a copy of any engagement letter or the basis for charging was Fairly Disclosed in the Disclosure Materials or the Disclosure Letter; or

Term	Definition
Material Adverse Change continued	<ul style="list-style-type: none"> • resulting or arising from or in connection with: <ul style="list-style-type: none"> – any actual or proposed change in any law, regulation or policy, or in any accounting principle or standard, or in the interpretation or application of any of the foregoing (provided such change does not have a materially disproportionate effect on SILK relative to other participants in the industry); – general economic, trading or political conditions or changes in any such conditions including disruptions to, or fluctuations in, financial markets or consumer demand, or changes in interest rates, foreign currency exchange rates or commodity prices (provided that any such conditions or changes in any such conditions does not have a materially disproportionate effect on SILK relative to other participants in the industry); – any act of terrorism, war (whether or not declared, and including without limitation the current conflict in Ukraine) natural disaster or the like; or – the announcement of, or the entry into or performance of, the Scheme Implementation Deed or the Scheme or the transactions contemplated by either.
NZCC Condition	the Condition described in Section 9.4(d)(ii).
Notice of Scheme Meeting	the notice in relation to the Scheme Meeting set out in Annexure D of this Scheme Booklet.
Prescribed Occurrence	any of the following: <ul style="list-style-type: none"> • SILK converting all or any of its shares into a larger or smaller number of shares; • SILK resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares; • SILK: <ul style="list-style-type: none"> – entering into a buy-back agreement in respect of its shares; or – resolving to approve the terms of a buy-back agreement in respect of its shares under the Corporations Act; • a member of the SILK Group issuing shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option other than: <ul style="list-style-type: none"> – to a member of the SILK Group; – the issue of shares upon exercise or vesting of a SILK Performance Right; or – in the ordinary course of the SILK Group business and substantially consistent with past practice of the SILK Group in connection with: (A) any new clinic opening (including any corporate, joint venture or traditional franchise clinics); or (B) any changes to the ownership (or changes the ownership structure) of any clinic (including in connection with the conversion of a clinic from one ownership model used by the SILK Group (corporate clinic, joint venture franchise or traditional franchise) to another);

Term	Definition
<p>Prescribed Occurrence continued</p>	<ul style="list-style-type: none"> • a member of the SILK Group issuing or agreeing to issue securities convertible into shares (including any issue or agreement to issue performance rights), other than where the securities are issued, or agreed to be issued, to a member of the SILK Group or other than in the ordinary course of the SILK Group business and substantially consistent with past practice of the SILK Group in connection with (A) any new clinic opening (including any corporate, joint venture or franchise clinics); or (B) any changes to the ownership (or changes the ownership structure) of any clinic (including in connection with the conversion of a clinic from one ownership model used by the SILK Group (corporate clinic, joint venture franchise or traditional franchise) to another); • a member of the SILK Group making any change to its constitution; • SILK paying, agreeing to pay, declaring or distributing any distribution, dividend, bonus, special payment or other share of its profits or assets to holders of SILK Shares, other than the Special Dividend; • a member of the SILK Group disposing, or agreeing to dispose, of the whole, or a material part, of the business or property of the SILK Group; • a member of the SILK Group resolving that it be wound up; • a liquidator or provisional liquidator of a member of the SILK Group being appointed; • a court making an order for the winding up of a member of the SILK Group; • an administrator of a member of the SILK Group being appointed under section 436A, 436B or 436C of the Corporations Act; • a member of the SILK Group executing a deed of company arrangement; • a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of a member of the SILK Group; • a member of the SILK Group creating, granting or agreeing to create or grant an Encumbrance over the whole, or a substantial part, of the SILK Group's business or property or over a material asset of the SILK Group other than in the ordinary course of business; <p>but does not include any matter:</p> <ul style="list-style-type: none"> • expressly required or expressly permitted by the Scheme Implementation Deed or the Scheme; • agreed to or requested in writing by API or any of its Related Bodies Corporate; • within the actual knowledge of API at 26 June 2023; or • Fairly Disclosed in the Disclosure Materials or the Disclosure Letter or in any document lodged with ASX by SILK in the 24 months prior to 26 June 2023.
<p>Register</p>	<p>the register of members of SILK maintained by SILK or the Share Registry in accordance with the Corporations Act.</p>

Term	Definition
Registered Address	in relation to a SILK Shareholder, the address of the shareholder shown in the Register as at the Scheme Record Date.
Related Body Corporate	has the meaning given in section 50 of the Corporations Act.
Related Entity	in relation to a party to the Scheme Implementation Deed, means: <ul style="list-style-type: none"> • a Related Body Corporate of the party; and • any other person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such party; the term “control” (including the terms “controlling”, “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise).
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act.
Representatives	in respect of a party to the Scheme Implementation Deed, means an employee, agent, officer, director, Adviser or financier of or to that party (or a Related Entity of that party), and, in the case of Advisers and financiers, includes employees, officers and agents of the Adviser or financier (as applicable).
Requisite Majorities	approval of the Scheme Resolution by: <ul style="list-style-type: none"> • unless the Court orders otherwise, a majority in number (i.e. more than 50%) of SILK Shareholders present and voting on the Scheme Resolution at the Scheme Meeting, either in person or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative; and • at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by SILK Shareholders, either in person or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative.
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act in the form set out in Annexure B of this Scheme Booklet, subject to any modifications, alterations or conditions required by the Court to which SILK and API agree, or any modifications, alterations or conditions agreed in writing by SILK and API and approved by the Court.
Scheme Booklet	this document, including the Annexures to it.
Scheme Consideration	the consideration to be provided by API to each Scheme Shareholder for the transfer to API of each Scheme Share, being \$3.35 cash for each SILK Share held by a Scheme Shareholder as at the Scheme Record Date, less the cash amount of any Special Dividend that the SILK Board decides to pay and is paid on or before the Implementation Date.

Term	Definition
Scheme Implementation Deed	the Scheme Implementation Deed between SILK and API dated 26 June 2023. A summary is set out in Section 9.4 of this Scheme Booklet and a copy is attached in full to SILK's ASX announcement on 26 June 2023, which is available on ASX's website at www.asx.com.au and on SILK's website at https://silklaser.com.au/investors/ .
Scheme Meeting	the meeting of SILK Shareholders to be convened, as ordered by the Court under section 411(1) of the Corporations Act, to consider the Scheme and includes any adjournment or postponement of that meeting.
Scheme Order	the order of the Court under section 411(4)(b) of the Corporations Act approving the Scheme, with any modifications, alterations or conditions required by the Court to which SILK and API agree, or any modifications, alterations or conditions agreed in writing by SILK and API and approved by the Court.
Scheme Record Date	the record date for determining entitlements to the Scheme Consideration, which is expected to be 7.00pm on the day which is 5 Business Days after the Effective Date, or such other date after the Effective Date as API and SILK agree in writing.
Scheme Resolution	the resolution to approve the Scheme to be voted on at the Scheme Meeting, as set out in the Notice of Scheme Meeting.
Scheme Share	a SILK Share on issue as at the Scheme Record Date.
Scheme Shareholder	a SILK Shareholder recorded in the Register as at the Scheme Record Date.
Second Court Date	the first day on which the Court hears the application for an order under section 411(4)(b) of the Corporations Act approving the Scheme or, if the application is adjourned or subject to appeal for any reason, the first day on which the adjourned or appealed application is heard.
Second Court Hearing	the hearing of the application made to the Court for the order under section 411(4)(b) of the Corporations Act approving the Scheme.
Share Registry	Computershare Investor Services Pty Limited.
SILK	SILK Laser Australia Limited (ACN 645 400 399).
SILK Board	the board of directors of SILK.
SILK Director	any director of SILK.
SILK Group	<ul style="list-style-type: none"> • SILK and each of its Related Bodies Corporate; and • where that term is used in sections 9.4(h) and 9.4(j), the definitions of 'Prescribed Occurrence' and the question 'What happens if a Competing Proposal emerges?' in section 2 in this document, also includes any entity in which a member of the SILK Group owns more than 45% of the ordinary shares.

Term	Definition
SILK Information	the information contained in this Scheme Booklet, other than the API Information, the information in Section 8 and the information in Annexure A of this Scheme Booklet.
SILK Performance Rights	any rights to SILK Shares issued under Equity Incentive Plan.
SILK Share	a fully paid ordinary share in SILK.
SILK Shareholder	a person entered in the Register as a holder of SILK Shares.
SILK Shareholder Information Line	the information line set up for the purpose of responding to enquiries from SILK Shareholders in relation to the Scheme, being 1300 429 201 (within Australia) or +61 2 7208 4523 (outside Australia) on Business Days between 8.30am and 5.00pm (Sydney time).
Special Dividend	a dividend (which may, in the SILK Board's absolute discretion be fully franked) of up to \$0.10 per SILK Share held on the Special Dividend Record Date, determined by the SILK Board to be paid.
Special Dividend Payment Date	the date of payment of any Special Dividend determined by the SILK Board in its sole discretion, which is currently expected to be Tuesday, 28 November 2023.
Special Dividend Record Date	the time and date for determining the entitlements to any Special Dividend, which is currently expected to be 7.00pm (Sydney time) on Tuesday, 21 November 2023.
Subsidiary	has the meaning given in the Corporations Act.
Superior Proposal	<p>a bona fide Competing Proposal in writing which the SILK Board, acting in good faith and in order to satisfy what the SILK Board considers to be its fiduciary and statutory duties, and after taking written advice from its external legal advisers, determines:</p> <ul style="list-style-type: none"> • is reasonably capable of being valued and completed taking into account all aspects of the Competing Proposal, including its conditions, the identity, reputation and financial condition of the person making such proposal, and all relevant legal, regulatory and financial matters; and • would reasonably be likely to be, if completed substantially in accordance with its terms, more favourable to SILK Shareholders than the Scheme (or than any proposal subsequently notified to SILK by API after 26 June 2023 which is binding on API (as the case may be)), considering all relevant aspects of the Competing Proposal.
Total Cash Value	\$3.35 per SILK Share comprising, in aggregate, the amount of any Special Dividend that the SILK Board decides to pay and is paid by SILK on or before the Implementation Date and the Scheme Consideration.
Third Party	a person other than API and its Associates.

Term	Definition
Transaction Costs	investment banking, financial adviser, legal, accounting, tax, share registry, Independent Expert and other fees and costs paid or payable to advisers and/or third-party service providers and transaction bonuses, retention payments, special exertion or similar fees or payments paid or payable to employees or officers of the SILK Group, incurred by any member of the SILK Group in respect of, or as a result of, the Scheme and in each case exclusive of GST.
Voting Power	has the meaning given in section 610 of the Corporations Act.
VWAP	volume weighted average price.
Wesfarmers	Wesfarmers Limited (ACN 008 984 049).
Wesfarmers Group	Wesfarmers and its Subsidiaries, and a reference to a Wesfarmers Group Member or a member of the Wesfarmers Group is to Wesfarmers or any of its Subsidiaries.

10.2 INTERPRETATION

In this Scheme Booklet, unless the context requires otherwise:

- headings are inserted for convenience and do not affect the interpretation of this Scheme Booklet;
- words and phrases in this Scheme Booklet have the same meaning given to them (if any) in the Corporations Act;
- the singular includes the plural and vice versa;
- a gender includes all genders;
- a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;
- if a word is defined, another part of speech has a corresponding meaning;
- a reference to a Section or Annexure is a reference to a Section or Annexure of this Scheme Booklet;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- unless expressly stated otherwise, a reference to time is a reference to time in Sydney, Australia; and
- unless expressly stated otherwise, a reference to dollars, \$, A\$ or cents is a reference to the lawful currency of Australia.

Annexure A

Independent Expert's Report

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Annexure A Independent Expert's Report

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The Directors
SILK Laser Australia Limited
Level 1, 137 The Parade
Norwood SA 5067

7 September 2023

Subject: Proposed acquisition by way of Scheme

Dear Directors

Introduction

- 1 On 19 April 2023, SILK Laser Australia Limited (SILK or the Company) announced that Australian Pharmaceutical Industries Pty Ltd (API)¹ had provided a non-binding, indicative and conditional proposal to acquire 100% of the shares in SILK by way of a scheme of arrangement for \$3.15 cash per share (API Indicative Proposal)². The API Indicative Proposal involved SILK and API entering into a Process Deed under which API would be granted 30 business days (subject to a potential extension for a further 10 business days) to undertake exclusive due diligence and negotiations on a binding Scheme Implementation Deed.
- 2 On 23 May 2023, SILK announced that it had received a competing, non-binding and indicative proposal from EC Healthcare to acquire 100% of the shares in SILK for \$3.35 cash per share (EC Indicative Proposal). The EC Indicative Proposal was subject to a number of conditions, including, inter alia, the completion of confirmatory due diligence and the unanimous recommendation from the SILK Board in support of the offer.
- 3 On 26 June 2023, SILK announced that it and API had signed a Scheme Implementation Deed (SID) under which API would acquire all of the issued shares in SILK by way of a scheme of arrangement for cash consideration of \$3.35 cash per share (API Binding Offer). After careful consideration and having received advice from its legal and financial advisers, the Board of SILK determined the API Binding Offer to be a superior proposal to the EC Indicative Proposal. The Board of SILK took into consideration a range of factors, including the certainty provided by the API Binding Offer and the ability to execute a binding SID with API on terms acceptable to the SILK Board.

¹ A wholly-owned subsidiary of Wesfarmers Limited (Wesfarmers).

² At the time of the API Indicative Proposal, API had entered into a Voting Deed with Wilson Asset Management Group (WAM) in relation to its 9.3% shareholding in SILK, such that WAM would vote its shares in favour of the proposed scheme, subject to certain conditions.

Authorised Representatives:

Hung Chu • Martin Hall • Grant Kepler* • Julie Planinic* • Jorge Resende • Nathan Toscan • Wayne Lonergan • Craig Edwards

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.
Liability limited by a scheme approved under Professional Standards Legislation

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- 4 On 10 August 2023, SILK announced it had been advised by API that API had received written confirmation from the Australian Competition and Consumer Commission (ACCC) that the ACCC does not intend to conduct a public review of the proposed acquisition of SILK by API. API also advised SILK that API had received written confirmation from the New Zealand Commerce Commission (NZCC) that the NZCC, having reviewed and considered a submission lodged by API, does not intend to consider the acquisition further. The ACCC condition and the NZCC condition contained in the SID has therefore been satisfied, subject to the ACCC and NZCC not withdrawing, suspending or revoking their written confirmation.
- 5 The proposed acquisition of the SILK shares is to be implemented via a scheme of arrangement between SILK and its shareholders (the Scheme) and is subject to a number of conditions precedent (as summarised in Section I of our report). If the Scheme is approved and implemented, SILK shareholders will receive cash consideration of \$3.35 for each SILK share held on the Scheme Record Date³ (Scheme Consideration), less the cash amount of any dividend which SILK announces before the Scheme Record Date. SILK will have the discretion to pay shareholders a dividend of up to a maximum of \$0.10 per share (Special Dividend), with the cash consideration to be reduced by the cash component of this dividend.
- 6 The Scheme will require the approval of SILK shareholders before it can proceed (as well as the satisfaction or waiver of a number of other conditions precedent as summarised in Section I of our report). The Scheme will be approved by SILK shareholders if the resolution at the Scheme meeting is passed by:
- (a) unless the Court orders otherwise, a majority in number (more than 50%) of the SILK shareholders present and voting (in person or by proxy, attorney or corporate representative); and
 - (b) 75% of the votes cast on the resolution at that meeting by the SILK shareholders present and voting (in person or by proxy, attorney or corporate representative).
- 7 If the resolution is passed by the requisite majorities, and the other conditions of the Scheme are satisfied or waived, a second Court hearing will be held to consider whether to approve the Scheme. If approved by the Court, the Scheme will become binding on all SILK shareholders as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme, or were not present at the meeting).

SILK

- 8 SILK operates a network of wholly owned, joint venture, and franchised specialist beauty clinics that provide non-surgical aesthetic products and services, including cosmetic injectables, laser hair removal, skin treatment, body contouring and fat reduction. SILK also sells a range of complementary skincare products to customers, which are primarily distributed through its clinic network, as well as through online sales channels.

³ The Scheme Record Date is presently expected to be 7:00pm on the fifth business day after the Scheme becomes effective.

API

- 9 API has been serving the health, beauty and wellbeing needs of Australians for more than 100 years. The company is one of Australia's leading health and beauty companies and is a wholesale distributor of pharmaceutical goods, offering retail support services to pharmacies through its Priceline Pharmacy franchises and banner brands. API also owns non-pharmacy Priceline stores, the Sister Club loyalty program and Clear Skincare clinics.

Purpose of report

- 10 There is no legislative (or regulatory) requirement for SILK to obtain an independent expert's report (IER), however the Scheme is subject to a number of conditions precedent, including an independent expert concluding, and continuing to conclude, that the Scheme is in the best interests of SILK shareholders.
- 11 In addition, the Directors' recommendation of the Scheme is subject to an independent expert concluding (and continuing to conclude) that the Scheme is "in the best interests" of SILK shareholders.
- 12 There is no legal definition of the expression "in the best interests". However, Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) notes that if an expert concludes that a scheme is "fair and reasonable", or "not fair but reasonable", then the expert will also be able to conclude that the scheme is "in the best interests" of members of the company.
- 13 Accordingly, the Directors of SILK have requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in our opinion, the Scheme is in the best interests of SILK shareholders and the reasons for that opinion.
- 14 LEA is independent of SILK and API and has no other involvement or interest in the proposed Scheme.

Summary of opinion

- 15 In our opinion, the Scheme is fair and reasonable and in the best interests of SILK shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Assessment of "fairness"

- 16 We have assessed the value of SILK shares on a 100% controlling interest basis at \$3.06 to \$3.44 per share, as shown below:

	Low \$m	High \$m
Enterprise value	170.0	190.0
Less net debt	(5.3)	(5.3)
Equity value – controlling interest basis	164.7	184.7
Fully diluted shares on issue (million)	53.8	53.8
Value per share – controlling interest basis (\$)	3.06	3.44

- 17 Pursuant to RG 111 a scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison for SILK shares is shown below:

Position of SILK shareholders			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Scheme Consideration	3.35	3.35	3.35
Value of 100% of SILK	3.06	3.44	3.25
Extent to which the Scheme Consideration exceeds (or is less than) the value of SILK	0.29	(0.09)	0.10

Note:

- 1 Due to the benefit of franking credits we note that the value of the Scheme Consideration (including the Special Dividend) to some Australian resident shareholders may be greater than \$3.35 per share if the Special Dividend is paid.

- 18 As the Scheme Consideration lies within our assessed valuation range for SILK shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to SILK shareholders when assessed based on the guidelines set out in RG 111.

Assessment of “reasonableness” and “in the best interests”

- 19 Pursuant to RG 111, a transaction is reasonable if it is fair. Accordingly, in our opinion, the Scheme is also “reasonable”.
- 20 In our experience, if a transaction is “fair” and “reasonable” under RG 111 it will also be “in the best interests” of shareholders. This is because if the consideration payable pursuant to a scheme is fair, shareholders are implicitly receiving consideration for their shares which is consistent with the full underlying value of those shares.
- 21 We therefore consider that the Scheme is also “in the best interests” of SILK shareholders in the absence of a superior proposal.

Assessment of the Scheme

- 22 We summarise below the likely advantages and disadvantages of the Scheme for SILK shareholders.

Advantages

- 23 In our opinion, the Scheme has the following benefits for SILK shareholders:
- (a) the Scheme Consideration of \$3.35 cash per share lies within our assessed value range for SILK shares on a 100% controlling interest basis
 - (b) the Scheme Consideration represents a significant premium to the recent market prices of SILK shares prior to the announcement of the API Indicative Proposal on 19 April 2023
 - (c) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of SILK shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings.

**Disadvantages**

- 24 SILK shareholders should note that if the Scheme is implemented they will no longer hold an interest in SILK. SILK shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration.
- 25 However, as our assessed value of SILK shares is broadly consistent with the Scheme Consideration, in our opinion, the present value of SILK's future potential is reflected in the Scheme Consideration.

Conclusion

- 26 Given the above analysis, we consider the advantages of the Scheme to outweigh the disadvantages. Accordingly, in our view, the acquisition of SILK shares under the Scheme is fair and reasonable to and therefore in the best interests of SILK shareholders in the absence of a superior proposal.

General

- 27 This report is general financial product advice only and has been prepared without taking into account the personal objectives, financial situations or needs of individual SILK shareholders. Accordingly, before acting in relation to the Scheme, SILK shareholders should have regard to their own objectives, financial situation and needs. SILK shareholders should also read the Scheme Booklet that has been issued by SILK in relation to the Scheme.
- 28 Furthermore, this report does not constitute advice or a recommendation (inferred or otherwise) as to whether SILK shareholders should vote for, or against the Scheme. This is a matter for individual SILK shareholders based upon their own views as to value, their expectations about future economic and market conditions and their particular personal circumstances including their risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If SILK shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.
- 29 For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that SILK shareholders read the remainder of our report.

Yours faithfully

Julie Planinic
Authorised Representative

Jorge Resende
Authorised Representative

Disadvantages

- 24 SILK shareholders should note that if the Scheme is implemented they will no longer hold an interest in SILK. SILK shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration.
- 25 However, as our assessed value of SILK shares is broadly consistent with the Scheme Consideration, in our opinion, the present value of SILK's future potential is reflected in the Scheme Consideration.

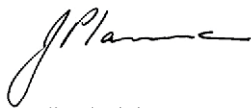
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- 26 Given the above analysis, we consider the advantages of the Scheme to outweigh the disadvantages. Accordingly, in our view, the acquisition of SILK shares under the Scheme is fair and reasonable to and therefore in the best interests of SILK shareholders in the absence of a superior proposal.

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- 28 Furthermore, this report does not constitute advice or a recommendation (inferred or otherwise) as to whether SILK shareholders should vote for, or against the Scheme. This is a matter for individual SILK shareholders based upon their own views as to value, their expectations about future economic and market conditions and their particular personal circumstances including their risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If SILK shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.
- 29 For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that SILK shareholders read the remainder of our report.

Yours faithfully



Julie Planinic
Authorised Representative



Jorge Resende
Authorised Representative

Table of contents

Section	Page
I Key terms of the Scheme	8
Terms	8
Conditions	8
Resolution	9
II Scope of our report	10
Purpose	10
Basis of assessment	10
Limitations and reliance on information	12
III Profile of SILK	14
Overview	14
History	14
Current operations	15
Financial performance	22
Financial position	24
Share capital and performance rights	26
IV Industry overview	30
Overview	30
Distribution channels	31
Competitive landscape	31
Demand drivers	33
Barriers to entry and regulation	37
V Valuation of SILK	39
Overview	39
Assessment of EBITDA for valuation purposes	39
EBITDA multiple	42
DCF methodology	49
Enterprise value	55
Net debt	55
Fully diluted shares on issue	55
Value of SILK	56
Comparison to pre-announcement share trading range	56

Section	Page
VI Evaluation of the Scheme	58
Assessment of fairness	58
Other considerations	59
Extent to which a control premium is being paid	59
Extent to which SILK shareholders are being paid a share of synergies	60
Share prices subsequent to the announcement of the API Indicative Proposal	61
Likely price of SILK shares if the Scheme is not implemented	61
Likelihood of an alternative offer	62
Summary of opinion on the Scheme	63
Conclusion	63

Appendices

A	Financial Services Guide
B	Qualifications, declarations and consents
C	Valuation methodology
D	Listed company descriptions
E	Transaction evidence
F	Glossary

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I Key terms of the Scheme

Terms

30 An overview and key terms of the Scheme is set out at paragraphs 1 to 6.

Conditions

- 31 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the SID between SILK and API dated 26 June 2023:
- (a) respective regulatory approvals by 8.00am on the Second Court Date from the ACCC, the NZCC and any other required government regulatory approvals. As announced on 10 August 2023, the ACCC condition and NZCC condition have been satisfied, subject to the ACCC and NZCC not withdrawing, suspending or revoking their written confirmation
 - (b) an independent expert issues a report which concludes that the Scheme is in the best interests of SILK shareholders and does not change that conclusion by 8.00am on the Second Court Date
 - (c) SILK shareholder approval by the requisite majorities at the Scheme meeting under the Corporations Act
 - (d) no “Material Adverse Change” (as defined in clause 3.1(d) of the SID) occurs or is announced or becomes known to API in respect of SILK on or before 8.00am on the Second Court Date
 - (e) no “Prescribed Occurrence” (as listed in Schedule 5 of the SID) occurs in respect of SILK on or before 8.00am on the Second Court Date
 - (f) SILK has taken all necessary steps by 8.00am on the Second Court Date to ensure that the SILK Rights will vest, lapse, be cancelled or otherwise dealt with in accordance with Clause 8 of the SID (excluding the actual vesting, lapsing or cancellation pursuant to that clause)
 - (g) all warranties and representations given by SILK or API being true and correct in all material respects
 - (h) no temporary, preliminary or final order, decision or decree issued by any court of competent jurisdiction or Government Agency is in effect at 8.00am on the Second Court Date
 - (i) the Court approves the Scheme in accordance with s411(4)(b) of the Corporations Act
 - (j) ASIC and the Australian Securities Exchange (ASX) having provided (and not having withdrawn or revoked) any consents or approvals reasonably necessary to implement the Scheme by 8.00am on the Second Court Date.
- 32 In addition, SILK has agreed that it will not:
- (a) solicit, invite, encourage or initiate any competing proposal
 - (b) participate in any discussions or negotiations which may reasonably be expected to lead to a competing proposal

- (c) enter into any agreement, arrangement or understanding in relation to a competing transaction or any agreement, arrangement or understanding which may reasonably be expected to lead to a competing proposal
 - (d) provide any information to a third party for the purposes of enabling that party to table a competing proposal.
- 33 Other than the non-solicitation obligation, the exclusivity obligations do not apply if SILK has complied with the various obligations set out in the SID and the SILK Board determines:
- (a) after consulting with its financial advisors, that the proposed competing transaction is a superior proposal or may reasonably be expected to lead to a superior proposal⁴; and
 - (b) based on written advice from its legal advisers, that compliance with exclusivity obligations would involve a breach of fiduciary duties or statutory duties or obligations of the directors of SILK.
- 34 The SID also contains matching right provisions under circumstances where a competing proposal is received.
- 35 A break fee covering external advisory costs, internal costs (such as management and Director's time), out of pocket expenses and opportunity costs, is payable by either SILK to API or API to SILK in certain circumstances as specified in the SID.

Resolution

- 36 SILK shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Scheme Booklet.
- 37 If the resolution is passed by the requisite majorities, SILK must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme it will become binding on all SILK shareholders who hold SILK shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

⁴ Subject to any potential breach of fiduciary duties, SILK must notify API if it receives a superior competing proposal and give API five business days to match that competing proposal.

II Scope of our report

Purpose

- 38 The Scheme is to be effected pursuant to Part 5.1 of the *Corporations Act 2001* (Cth) (Corporations Act), which governs schemes of arrangement. Part 3 of Schedule 8 of the Corporations Regulations 2001 (Corporations Regulations) prescribes information to be sent to shareholders in relation to a members' (i.e. shareholders') scheme of arrangement pursuant to s411 of the Corporations Act.
- 39 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.
- 40 API (as well as Wesfarmers) has no current shareholding in SILK and has no representation on the SILK Board. Accordingly, there is no legislative (or regulatory) requirement for an IER to be prepared. However, both a condition precedent to the Scheme and the SILK Directors' unanimous recommendation of the Scheme are subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of SILK shareholders.
- 41 Accordingly, the Directors of SILK have appointed LEA to prepare an IER stating whether the proposed acquisition of the shares in SILK by API under the Scheme is in the best interests of SILK shareholders and the reasons for that opinion. Our report will accompany the Scheme Booklet to be sent to SILK shareholders.
- 42 It should be noted that this report is general financial product advice only and has been prepared without taking into account the personal objectives, financial situations or needs of individual SILK shareholders. Accordingly, before acting in relation to the Scheme, SILK shareholders should have regard to their own objectives, financial situation and needs. SILK shareholders should also read the Scheme Booklet that has been issued by SILK in relation to the Scheme.
- 43 Furthermore, this report does not constitute advice or a recommendation (inferred or otherwise) as to whether SILK shareholders should vote for, or against the Scheme. This is a matter for individual SILK shareholders based upon their own views as to value, their expectations about future economic and market conditions and their particular personal circumstances including their risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If SILK shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 44 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111, which, inter alia, provides guidance as to how an expert should assess the merits of a transaction.

- 45 When an IER is prepared for a scheme that involves a change of control (essentially, where one party acquires more than a 20% equity interest in another party), ASIC expects the form of the analysis undertaken by the expert to be substantially the same as for a takeover bid. That is, the expert is required to assess and provide an opinion on whether the scheme is “fair” and “reasonable” to the securityholders of the company which is the subject of the scheme (in addition to the inclusion of a statement as to whether the scheme is “in the best interests” of securityholders, being the opinion required under Part 3 of Schedule 8 to the Corporations Regulations).
- 46 **Fairness** involves the application of a strict quantitative test that compares the value of the consideration offered against the value of the securities that are the subject of the scheme. A scheme is “fair” if the value of the scheme consideration is equal to, or greater than, the value of the securities that are the subject of the scheme. Fairness effectively measures whether securityholders (in the company the subject of the scheme) are being adequately compensated for the actual (or deemed) change of “control” in ownership.
- 47 **Reasonableness** involves the consideration of other significant quantitative and qualitative factors that securityholders might consider prior to accepting a proposal. A scheme is considered “reasonable” if it is “fair”. A scheme may also be considered “reasonable” if, despite being “not fair”, the expert believes there are sufficient reasons for securityholders to vote in favour of the scheme, in the absence of a superior proposal.
- 48 There is no legal definition of the expression “in the best interests”. However, RG 111 notes that if an expert concludes that a scheme is “fair and reasonable”, or “not fair but reasonable”, then the expert will also be able to conclude that the scheme is “in the best interests” of members of the company. Similarly, RG 111 notes that if an expert concludes that a scheme is “not fair and not reasonable”, then the expert would need to conclude that the scheme is “not in the best interests” of members of the company.
- 49 Our report has therefore considered:

Fairness

- (a) the market value of 100% of the shares in SILK
- (b) the value of the consideration offered by API
- (c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)

Reasonableness

- (d) the extent to which a control premium is being paid to SILK shareholders
- (e) the extent to which SILK shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
- (f) the listed market price of SILK shares, both prior to and subsequent to the announcement of the proposed Scheme
- (g) the value of SILK to an alternative offeror and the likelihood of a higher alternative offer being made for SILK prior to the date of the Scheme meeting
- (h) the likely market price of SILK shares if the proposed Scheme is not approved

- (i) the advantages and disadvantages of the Scheme from the perspective of SILK shareholders
- (j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

- 50 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 51 Our report is also based upon financial and other information provided by SILK and its advisers⁵. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 52 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of SILK shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 53 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.
- 54 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 55 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

⁵ Refer to Appendix B, paragraph 9 for the sources of information relied on for the purposes of this report.



- 56 In forming our opinion, we have also assumed that:
- (a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects
 - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the SID and the terms of the Scheme itself.

III Profile of SILK

Overview

- 57 SILK operates a network of wholly owned, joint venture (JV), and franchised specialist beauty clinics that provide non-surgical aesthetic products and services, including cosmetic injectables, laser hair removal, skin treatment, body contouring and fat reduction in Australia and New Zealand (NZ). SILK also sells a range of complementary skincare products to customers, which are primarily distributed through its clinic network, as well as through online sales channels.

History

- 58 Founded in October 2009 in South Australia (SA), SILK originated as a single clinic that primarily provided laser hair removal services. In 2010 the Company expanded into skin treatment and cosmetic injectable services and launched its first company owned branded range of skincare products. Over time, SILK expanded its clinic numbers and in 2018 made two acquisitions, being the Laser Lounge, which included 16 clinics in Queensland (QLD), New South Wales (NSW) and SA⁶, and Aesthetics RX, a cosmeceutical skincare brand that distributed a range of products that are complementary to SILK's existing skincare range. In June 2020, SILK launched its non-invasive fat reduction and body contouring service.
- 59 SILK listed on the ASX on 15 December 2020 as one of Australia's largest specialist clinic operators, with a network of 53 clinics. Since listing on the ASX, SILK has continued to grow, both organically and through strategic acquisition, a summary of which is set out below:

SILK – acquisitions			
Date ⁽¹⁾	Acquisition	Clinics post acquisition ⁽¹⁾	Business overview at time of acquisition
Aug 21	Australian Skin Clinics	118	Australian Skin Clinics (ASC) operates a network of 55 clinics across Australia (41) and NZ ⁽²⁾ (14) that offer non-surgical aesthetic products and services similar to SILK's core offering.
Jul 22	Unique Laser	128	Unique Laser is a Victorian (VIC) based specialist clinic operator with a network of five clinics located in Ballarat, Doncaster, Geelong, Torquay, and Waurn Ponds.
Mar 23	Eden Laser Clinics (Eden)	142	Eden operates 10 cosmetic clinics across NSW (9) and Australian Capital Territory (ACT) (1).

Note:

- 1 Date of acquisition completion.
2 NZ clinics operate under the "The Cosmetic Clinic" (TCC) brand.

- 60 SILK's acquisition strategy has allowed the company to scale its network and increase its diversification over a relatively short period of time, noting in particular that:

⁶ The rebranding of the Laser Lounge clinics to SILK clinics completed in 2020.

- (a) the ASC acquisition provided SILK with a scaled entry into VIC and NZ and enhanced SILK's presence in QLD and NSW. The clinics acquired from ASC included 48 traditional franchise clinics (including 14 in NZ), four JV franchises and three corporate clinics
- (b) the Unique Laser acquisition added to SILK's presence in VIC and strengthened SILK's franchise network, with four of the clinics acquired being traditional franchises. Unique Laser clinics were subsequently rebranded to ASC over the six months following the acquisition given the significant presence of ASC in the VIC market
- (c) the Eden acquisition (which comprised nine corporate and one JV clinic) increased SILK's footprint in the Sydney market and provided increased exposure to desirable locations such as Penrith, Liverpool, Bankstown, Eastgardens and Hornsby.

Current operations

- 61 SILK's clinic network comprises 145 clinics⁷ across Australia and NZ that provide a range of laser hair removal, cosmetic injectables, skin treatment, body contouring and fat reduction services. SILK also sells a range of complementary skincare products (such as after-care products for laser hair removal and skin treatments) which are primarily distributed through its clinic network as well as online sales channels.

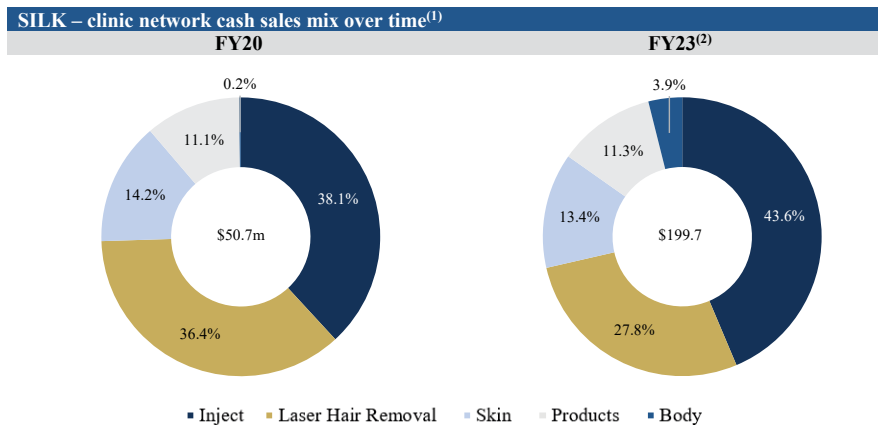
Products and services

- 62 SILK offers a range of specialist products and services designed to cater for its clients' various aesthetic preferences. The Company's core products and service lines can be categorised as follows:
- (a) **Cosmetic injections** – a range of anti-wrinkle and dermal filler injections administered by registered nurses. Injectable products are typically purchased and paid for at the time that treatment is administered and can range across one or more products and areas
 - (b) **Laser hair removal** – professional treatment plans for unwanted facial and body hair using medical grade laser equipment. Laser hair removal services are typically purchased through prepaid packages, whereby customers pay upfront for multiple sessions that are delivered over two to 12 months
 - (c) **Skin** – a range of treatments and advanced technologies to address a broad range of skin conditions and concerns. Services include microdermabrasion, dermal peels, microneedling, laser pigmentation removal and light emitting diodes. Skin treatments are generally purchased through prepaid packages and are typically delivered over two to 12 months
 - (d) **Product** – SILK's skincare product offering includes skincare products sold under the Company's Aesthetics RX and Balense brands. SILK is predominantly focused on cosmeceutical-grade products aimed at maximising treatment outcomes, including a range of post-treatment and other facial products. The majority of products are purchased by clients that have already purchased treatments across other service lines, however more recently, SILK has increased its online sales penetration through its website as well as third party beauty product retailers

⁷ As at 30 June 2023.

(e) **Body** – non-invasive fat reduction and body contouring services using two key technologies⁸. Fat reduction and body contouring services are typically purchased through prepaid packages and delivered over multiple sessions based upon targeted areas of the body.

63 Since the year ending 30 June 2020 (FY20), SILK’s revenue has increased significantly (primarily driven by recent acquisitions) and its clinic network sales mix has evolved to a higher proportion of injectables revenue, as an increasing number of SILK’s clinics provide injectable services. The contribution from new services such as fat reduction and body contouring has also increased over this period:



Note:

- 1 Network cash sales represents the total cash sales generated by all clinics in the SILK network (regardless of ownership) and reflects the cash sales from treatments and other items sold and paid for by SILK’s clients (rather than treatments performed for clients).
- 2 Includes a four month contribution from the Eden network which was acquired on 1 March 2023.

64 A summary of key metrics for each service offering is set out in the table below:

SILK – product and service offering					
	Cosmetic injections	Laser hair removal	Skin	Product	Body
Average client spend (p.a.)	\$970	\$290	\$380	\$190	\$2,030
Clinics offering service	145	145	145	145	91
Cash sales mix ⁽¹⁾	44%	28%	13%	4%	11%

Note:

- 1 Based on total network cash sales for each category in FY23.

⁸ The CoolSculpting fat reduction machine aims to reduce fat through cryolipolysis (destruction of fat cells through freezing), and the EmSculpt machine administers body contouring using high intensity focused electro-magnetic energy to induce muscle contractions.

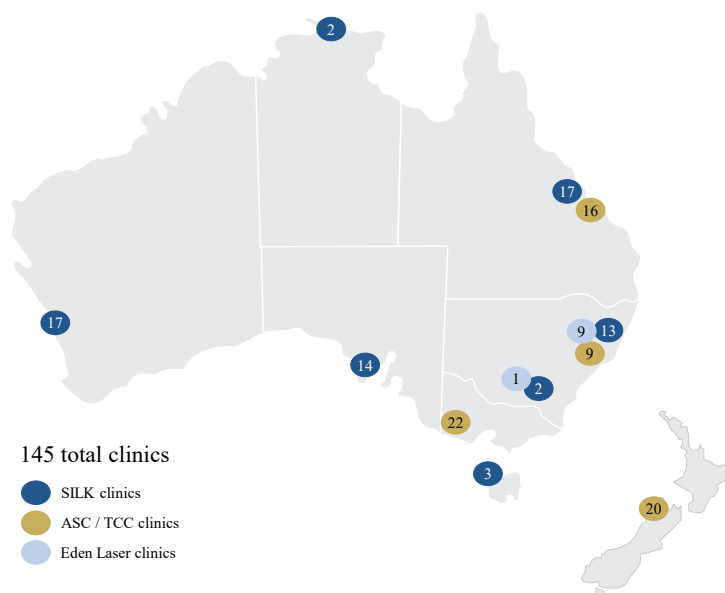
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Clinic locations

- 65 SILK’s clinics are typically located in high foot traffic areas such as shopping centres or high streets. Clinic sites are chosen based on factors such as demographic profile, proximity to existing clinics and other site-specific criteria. SILK generally targets regions where it considers the market size as significant and the area is not adequately serviced by a specialist competitor clinic (or an existing SILK clinic). In some instances, SILK may also target a relatively crowded region if it has the cosmetic injectable nurse talent and resources required to compete in this market.
- 66 The location of SILK’s 145 clinics (as at 30 June 2023) is illustrated below:

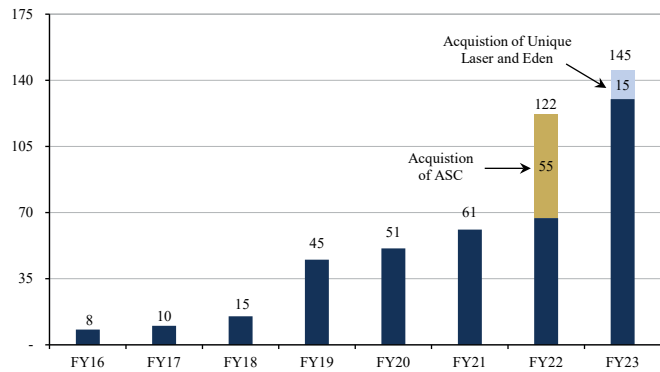
SILK – overview of clinic network
As at 30 June 2023



Historical growth in clinic network

- 67 As stated above, since its first clinic was established in SA in 2009, SILK has steadily grown its network of clinics, both organically and through acquisitions. The graph below sets out the number of clinics operated by SILK over the FY16 to FY23 period, which shows that growth in SILK’s clinic numbers accelerated from FY19:

SILK – clinic network over time
Number of clinics as at 30 June⁽¹⁾

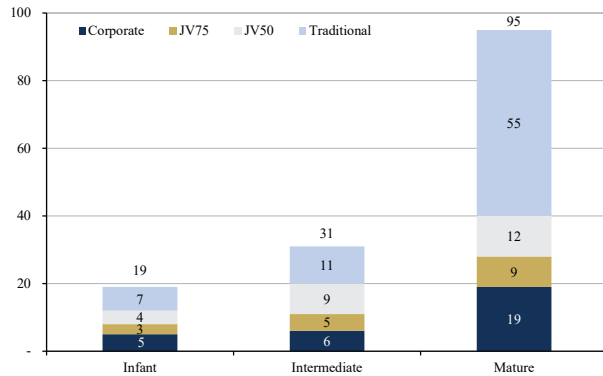


Note:
1 Based on the number of clinics operated at the end of each period.

Maturity profile

68 SILK clinics typically range between 70 square metres to 100 square metres in floor space and generally comprise five or six treatment rooms (however, some locations are designed to accommodate up to eight treatment rooms⁹). It generally takes three to four years for a clinic to reach maturity and realise its full potential in terms of client base and service offering, resulting in greater revenue and earnings. The below sets out the age profile of SILK’s clinic network as at 30 June 2023:

SILK – clinic network maturity profile⁽¹⁾
Number of clinics as at 30 June 2023



Note:
1 Infant – clinics open for less than two years; Intermediate – clinics open for between two and four years; and Mature – clinics open for more than four years.

⁹ Clinics are generally established with the capacity to operate six treatment rooms from inception, which requires an estimated \$0.5 million to \$0.8 million in capital expenditure per clinic. This upfront capital expenditure includes the cost of premises fit-out and equipment.

- 69 As indicated above, SILK's network comprises a number of relatively young clinics (i.e. Infant and Intermediate) which have not yet reached maturity. Based on historical experience, as these clinics mature the revenue and underlying earnings contribution from these clinics is expected to increase at a faster rate than mature clinics. The table below summarises the maturity of the average SILK clinic over time:

SILK – clinic maturity			
	Year 1 ⁽¹⁾	Year 2 ⁽¹⁾	Average all clinics > 3 years
Cash sales per clinic (\$000s)	996	1,417	1,528
Underlying EBITDA per clinic (\$000s)	54	181	278
<i>Clinic underlying EBITDA margin (%)</i>	<i>5%</i>	<i>13%</i>	<i>18%</i>

Note:

1 Based on new SILK clinics opened from August 2017 to August 2019.

Source: SILK Prospectus.

Clinic ownership structures

- 70 SILK's network of clinics are operated under three different ownership models:

- (a) **corporate** – 100% owned clinics that are under full control of SILK, managed via a clinic manager and overseen through business development managers in each region. The corporate structure is used to enter new markets quickly and efficiently, and allows SILK to effectively manage the formative years of the clinic
- (b) **JV** – includes two distinct types of clinic ownership:
 - (i) **majority owned (JV75)** – JV clinics where SILK's ownership interest is more than 50%. SILK recognises its investments in majority owned JV clinics on a consolidated accounted basis for financial reporting purposes
 - (ii) **minority owned (JV50)** – JV clinics where SILK's ownership interest is less than or equal to 50%. SILK recognises its investments in minority owned JV clinics on an equity accounted basis for financial reporting purposes.

JV50 clinics pay franchise fees to SILK, and the Company also earns a margin on the sale of branded products and injectables to JV50 clinics¹⁰. SILK oversees all finance, payroll, and human resource functions for all of its JV clinics (regardless of ownership), with the JV partner's role focused on driving clinic performance and managing staff. The JV structure is also used to attract and retain key cosmetic injectable nurses by offering nurses equity ownership and a share of the economic returns of the clinic
- (c) **traditional franchise** – SILK collects franchise fees from franchisees and generates a margin on branded products and injectables supplied to the franchise network. The Company has no direct ownership interest in the clinic and the franchisee is responsible for the capital and operational costs of the clinic.

¹⁰ JV75 clinics also pay franchise fees to SILK, however these fees are eliminated on consolidation.

- 71 The table below sets out further details with respect to each clinic ownership structure:

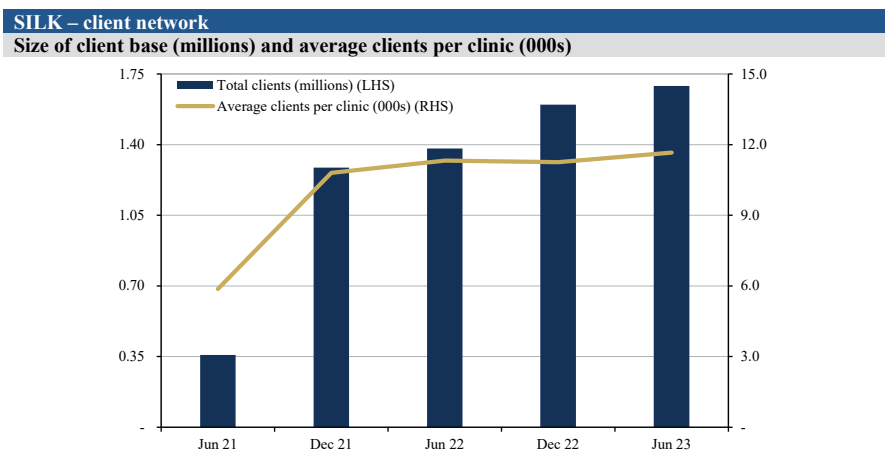
SILK – clinic ownership structures			
	Corporate	JV	Traditional franchise
Number of clinics ⁽¹⁾	30	JV75 – 17 JV50 – 25	73
SILK ownership	100%	JV75 – 51% to 90% JV50 – 47.5% to 50%	Nil
Network cash sales ⁽²⁾	\$30.8 million	JV75 – \$22.1 million JV50 – \$41.5 million	\$105.4 million
Funding source	100% by SILK	Split between SILK and the JV partner based upon relative ownership ⁽³⁾	100% by franchisee
Key franchise terms			
Agreement term	na	Initial term of five years with three renewal terms of five years each	Initial term of five years with three renewal terms of five years each
Franchise fee ⁽⁴⁾	Eliminated on consolidation	Generally 8% to 10% (plus GST)	Generally 8% to 10% (plus GST)
Marketing levy ⁽⁴⁾	Eliminated on consolidation	3% to 4% (plus GST)	3% to 4% (plus GST)
Management fee ⁽⁵⁾	na	\$750 per week	na
Note:			
1 As at 30 June 2023.			
2 Based on network cash sales for FY23 including a four month contribution from Eden, which was acquired on 1 March 2023.			
3 In some instances, SILK may provide a vendor loan to the JV partner, as well as equipment financing upon clinic establishment.			
4 Franchise fees and marketing levies are charged as a percentage of annual clinic network cash sales. The fees charged to corporate and JV75 clinics are eliminated on consolidation.			
5 Management fees are charged for back office services provided by SILK's head office to JV clinics. na – not applicable.			

Customer base

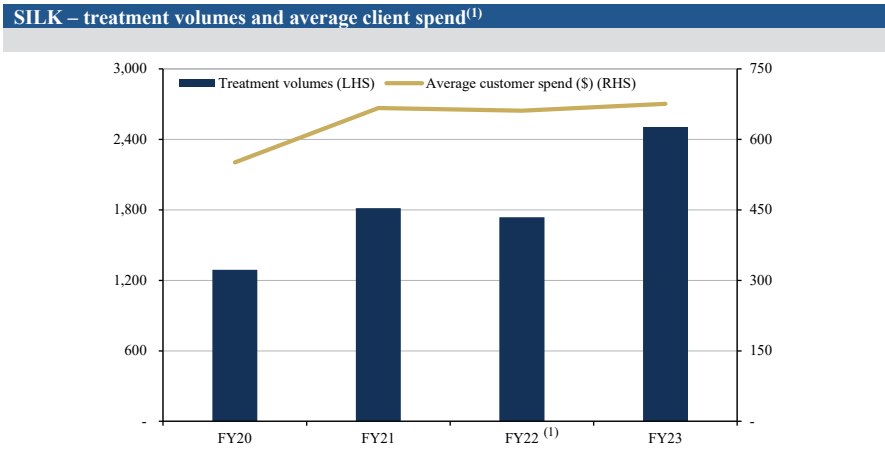
- 72 Female clients currently represent approximately 95% of SILK's customer base, which is primarily represented by women aged between 20 and 50 years old. The core demographic for injectable services is typically towards the higher end (i.e. ages 30 to 50), while laser hair removal services are generally targeted towards younger customers.
- 73 SILK has maintained strong customer satisfaction, and recently achieved a net promoter score¹¹ of 80, notwithstanding the various challenges faced by clinic operators in recent years due to COVID-19 restrictions. SILK's strong customer service, together with growth in its clinic network, has contributed to an increase in the Company's network client base from approximately 0.4 million as at 30 June 2021 to 1.7 million as at 30 June 2023:

¹¹ Net promoter score is a market research metric that is based on a single survey question asking respondents to rate the likelihood that they would recommend a company, product, or a service to a friend or colleague. Companies are then assigned a score of between -100 and 100 based upon the respondents' answers.

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74 The chart below sets out SILK’s total treatment volumes and average customer spend over the four years to FY23:



Note:
 1 FY22 was materially impacted by COVID-19.

75 SILK utilises laser hair removal treatments as a client acquisition tool by focusing on progressing laser hair removal clients to other services such as injectables and skin treatments (noting that laser hair removal services are generally marketed as permanent solutions that do not require ongoing treatments¹²). Cosmetic injections and skin treatments are temporary solutions which typically require repeat sessions to achieve or maintain the desired aesthetic solution. These services are therefore more recurring in nature, resulting in increased client

¹² Notwithstanding some maintenance services will be required after the initial rounds of treatment.

stickiness. SILK also cross-sells high-margin, complementary skincare products to clients who have undergone treatments at its clinics.

Financial performance

76 A summary of the financial performance of SILK for the four years to FY23 is set out below:

SILK – statement of financial performance⁽¹⁾				
	FY20	FY21	FY22	FY23
	\$m	\$m	\$m	\$m
Clinic sales	22.5	43.2	50.1	54.7
Distribution sales	6.5	10.1	17.6	25.2
Total trading sales	29.0	53.3	67.8	79.9
Cost of sales	(7.8)	(14.4)	(20.7)	(26.5)
Gross profit	21.2	38.9	47.0	53.4
Franchise revenue	3.3	5.6	13.6	17.7
Share of profits of associates ⁽²⁾	0.1	0.8	0.6	0.8
Other income ⁽³⁾	0.5	0.5	1.2	0.8
Employee benefits expense	(13.9)	(20.5)	(27.3)	(32.7)
Other operating costs	(5.0)	(7.9)	(13.0)	(15.2)
Adjusted EBITDA⁽⁴⁾ (before non-recurring items)	6.3	17.3	22.0	24.8
Depreciation and amortisation ⁽⁵⁾	(4.6)	(6.1)	(8.5)	(9.9)
Adjusted EBIT⁽⁴⁾ (before non-recurring items)	1.6	11.2	13.6	14.9
Non-recurring items ⁽⁶⁾	2.0	(3.1)	(3.7)	(4.8)
Net interest income / (expense) ⁽⁵⁾	(0.5)	(0.4)	(0.8)	(1.1)
Profit before tax	3.2	7.6	9.1	9.1
Income tax expense	(0.9)	(2.5)	(2.7)	(2.0)
Profit after tax	2.3	5.2	6.4	7.1
Profit / (loss) after tax attributable to minority interests	(0.1)	(0.1)	(0.0)	0.2
Profit after tax attributable to SILK shareholders	2.2	5.0	6.4	7.2
<i>Revenue growth</i>	<i>na</i>	<i>83.5%</i>	<i>27.1%</i>	<i>17.9%</i>
<i>Gross profit margin⁽⁷⁾</i>	<i>73.1%</i>	<i>72.9%</i>	<i>69.4%</i>	<i>66.8%</i>
<i>Adjusted EBITDA margin⁽⁷⁾</i>	<i>19.3%</i>	<i>29.4%</i>	<i>27.1%</i>	<i>25.4%</i>

Note:

- 1 Rounding differences may exist.
- 2 Represents SILK's share of the net profit resulting from operations of its minority and jointly owned JV clinics, in addition to dividends received from subsidiaries.
- 3 Includes income from reimbursements, insurance claims, and profit on disposal of subsidiaries.
- 4 Earnings before interest, tax, depreciation and amortisation (EBITDA); earnings before interest and tax (EBIT).
- 5 Depreciation and interest expense include the impact of changes required under Australian Accounting Standard AASB 16 – *Leases* (AASB 16) (i.e. depreciation and interest are reported on a post-AASB 16 basis). The adoption of AASB 16 requires rent expenses to be replaced by amortisation charges (of the right of use asset) and notional interest expenses (on operating lease liabilities).
- 6 Non-recurring items include the following:

JobKeeper / other government grant payments	2.0	2.0	-	-
Initial public offering (IPO) related expenses	-	(3.6)	(0.2)	-
Business combination expenses	-	(1.4)	(2.2)	(1.1)
Systems implementation costs	-	-	(1.2)	(2.6)
Takeover advisory expenses	-	-	-	(1.1)
Total non-recurring items	2.0	(3.1)	(3.7)	(4.8)
- 7 Gross profit margins are based on total trading sales. Adjusted EBITDA margins are based on total revenue (i.e. total trading sales plus franchise revenue).

Description of revenue

77 A summary of the various sources of revenue for SILK is as follows:

- (a) **clinic sales** – relates to the revenue generated by SILK's corporate and JV75 clinics. This is primarily derived from SILK's four core treatment categories including Cosmetic Injections, Laser Hair Removal, Skin and Body as well as sales of SILK's skincare products from these clinics that complement the service range (e.g. after care products etc.)
- (b) **distribution sales** – includes the following (noting corporate and JV75 clinics are charged similar amounts albeit these are elimination on consolidation):
 - (i) **cosmetic injectable recharges** – relates to cosmetic injectable materials purchased centrally and recharged to JV50 and traditional franchise clinics at a margin
 - (ii) **registered nurse recharges** – recharges from prescribing registered nurse practitioners and doctor's services that act as consultants to other clinics in the network for injectable treatments
 - (iii) **skin product sales** – skincare products sold through SILK clinics as well as online and other third party channels. A large proportion of skin product sales relates to wholesaling products to minority owned JV50 clinics, traditional franchise clinics and third parties
- (c) **franchise revenue** – includes franchise fees and management charges generated from JV50 and franchise clinics.

Historical results

- 78 SILK's financial performance is relatively seasonal, with a higher proportion of revenue and earnings reported generated in the first half of the financial year. This is due to a number of factors, including the timing of key sales events, such as SILK's annual birthday sales promotions in September and October, as well as customer spending patterns, which exhibit an increase in the lead up to the summer period (when clients focus on physical appearance for the warmer weather and holiday season).
- 79 In addition, the financial performance of SILK has been impacted by the completion of a number of recent acquisitions. A timeline showing the incorporation of these acquisitions is set out below:

SILK – material completed acquisitions				
Acquisition / completion	FY20	FY21	FY22	FY23
ASC / 1 September 2021				
Unique Laser / 1 July 2022				
Eden / 1 March 2023				
Network summary				
Network cash sales (\$m)	50.7	85.1	162.7	199.7
Clinic numbers	51	61	122	145

- 80 Given the significant growth in the number of clinics in the SILK network following the abovementioned acquisitions, and the significant increase in network cash sales, we do not

consider the revenue and underlying EBITDA for SILK prior to FY23 to be representative of future financial performance for the Company.

- 81 Network cash sales increased by 23% to \$199.7 million in FY23 underpinned by sales growth across all product categories in addition to the contributions from the acquisitions of Unique Laser and Eden. In FY23 wages increased twice during the period, however operating expenses (as a percentage of revenue) were broadly consistent with FY22 as inflationary pressures were offset by sales growth across the network.

Financial position

- 82 The financial position of SILK as at 31 December 2022 and 30 June 2023 is set out below:

SILK – statement of financial position		
	31 Dec 22	30 Jun 23
	\$m	\$m
Debtors and prepayments	10.6	8.3
Inventories	4.8	5.5
Creditors, accruals and provisions	(24.7)	(30.4)
Net working capital	(9.3)	(16.6)
Property, plant and equipment	17.9	21.2
Intangible assets and goodwill	83.9	94.8
Investment in associates	1.7	1.3
Deferred tax assets (net)	2.6	2.1
Right of use (ROU) assets (net of lease liabilities) ⁽²⁾	(2.2)	(2.1)
Other assets and liabilities (net)	(1.4)	1.0
Total funds employed	93.1	101.7
Cash and cash equivalents	19.4	20.8
Associate shareholder loan receivables	4.7	5.2
Interest bearing liabilities	(22.5)	(30.0)
Deferred consideration	-	(1.2)
Net cash / (borrowings)	(1.6)	(5.3)
Net assets	94.8	96.4
Non-controlling interests	(0.4)	0.4
Net assets attributable to SILK shareholders	94.4	96.9

Note:

- 1 Rounding differences may exist.
- 2 ROU assets relate to the various leased premises associated with company owned and JV75 clinics and also includes sublease receivables where SILK has entered into the head lease arrangement with the landlord (generally shopping centres) and then entered into a sub-lease with the franchisee clinic.

Net working capital

- 83 SILK clinics tend to operate with negative working capital as clients typically pay for almost half of all treatments in advance, allowing SILK to receive cash in advance of incurring the cost of treatment delivery. The advantage of the prepaid business model is that clinics are generally cash generative and self-funding (other than the initial clinic set up costs), with newly established clinics generally being cash flow positive after 12 months.

Property, plant and equipment

- 84 SILK's property, plant and equipment assets primarily relates to capitalised leasehold improvements as well as clinic treatment furniture and equipment (e.g. laser treatment equipment) associated with SILK's corporate and JV75 clinics. A breakdown of SILK's property plant and equipment as at 31 December 2022 and 30 June 2023 is set out below:

SILK – property, plant and equipment⁽¹⁾		
	31 Dec 22	30 Jun 23
	\$m	\$m
Leasehold improvements (cost)	11.7	14.3
Accumulated depreciation	(5.5)	(6.8)
Leasehold improvements (net)	6.3	7.5
Furniture and plant (cost)	18.2	20.8
Accumulated depreciation	(6.5)	(7.1)
Furniture and plant (net)	11.7	13.6
Total property, plant and equipment	17.9	21.2

Note:

- 1 Rounding differences may exist.

- 85 Property, plant and equipment assets are depreciated on a straight line basis over the useful life, which ranges from three to 10 years for plant and equipment, and is based on the lease term for leasehold improvements.

Intangible assets and goodwill

- 86 The majority of SILK's intangible assets relate to goodwill and franchise network assets acquired through business combinations as illustrated below:

SILK – intangible assets		
	31 Dec 22	30 Jun 23
	\$m	\$m
Goodwill	63.4	71.0
Franchise network	19.4	18.9
Customer relationships	-	3.5
Other ⁽¹⁾	1.0	1.3
Total	83.9	94.8

Note:

- 1 Includes the ASC brand name, intellectual property, franchise and system development, website and software assets.

- 87 Goodwill is carried at cost less accumulated impairment losses and is tested annually for impairment using the value in use methodology. Franchise network intangible assets were recognised following the completion of the acquisition of ASC and relate to the ASC franchise contract agreements under which franchise revenues are derived.

Associate shareholder loan receivables

- 88 SILK had associated shareholder loan receivables of \$4.7 million and \$5.2 million¹³ as at 31 December 2022 and 30 June 2023 respectively, which generally relate to loans advanced to JV partners to contribute towards the establishment cost of new clinics, new equipment or expansions.
- 89 The total building and working capital cost of a new clinic is estimated to be around \$0.75 million (on a 100% basis). SILK typically contributes a shareholder loan of \$0.25 million pari passu with the JV partner, whilst plant and machinery is typically financed by an interest bearing loan issued by SILK. Associate shareholder loans are repayable over time as clinics move into cash positive trading positions.

Investments in associates

- 90 Investments in associates represents the sum of SILK's relevant interests in its JV50 clinics, which are equity accounted. The equity accounted investment for a minority or jointly owned JV clinic is initially recognised at cost, and is adjusted to recognise changes in SILK's share of net assets of the clinic since the date of acquisition.

Deferred consideration payable

- 91 As at 30 June 2023, SILK had deferred consideration payable of \$1.2 million related to the Company's acquisition of Eden (completed on 1 March 2023).
- 92 In addition, the total consideration payable for the Eden acquisition is currently the subject of a legal dispute with the vendor claiming that additional consideration is payable. SILK's Board of Directors do not believe any additional amounts will be payable to the vendor of Eden.

Borrowings

- 93 As at 30 June 2023, SILK had \$30.0 million of drawn debt under a facility with Westpac Bank which has been utilised in recent periods to fund the acquisitions of ASC and Eden. The bank loan facility is fully repayable upon a change of control transaction for SILK.
- 94 The facility has covenants related to net leverage, which are based on the ratio of EBITDA to net debt and the ratio of EBITDA to interest and rent expense. SILK has complied with all debt covenants and requirements of the facility since its inception in late August 2021.

Share capital and performance rights

- 95 As at the date of this report, SILK had 53.1 million fully paid ordinary shares on issue. In addition, SILK had approximately 0.7 million outstanding performance rights that have been issued to senior employees pursuant to the Company's equity incentive plan (EIP) rules¹⁴. Under the EIP, the SILK Board has granted performance rights to key executive management personnel in FY22 and FY23, as part of their short term incentive (STI) and long term incentive (LTI) awards. A summary of these performance rights is provided below:

¹³ Net of a \$0.3 million allowance for expected credit losses.

¹⁴ The EIP was implemented upon completion of SILK's IPO.

SILK – performance rights			
Tranche	Number	Grant date	Expiry date
FY22 (LTI)	273,348	1 Oct 21	1 Sep 24
FY23 (STI)	155,000	23 Dec 22	31 Aug 25
FY23 (LTI)	210,000	22 Nov 22	31 Aug 25
	638,348		

- 96 The SILK Board is able to make a determination that some or all of a participant's rights vest if the Company becomes, or in the opinion of the SILK Board is likely to become, subject to a change of control event.

Substantial shareholders

- 97 As at 31 August 2023, there were six substantial shareholders in SILK. The substantial shareholders were as follows (noting a number of these shareholders have been substantial shareholders since the Company listed on the ASX):

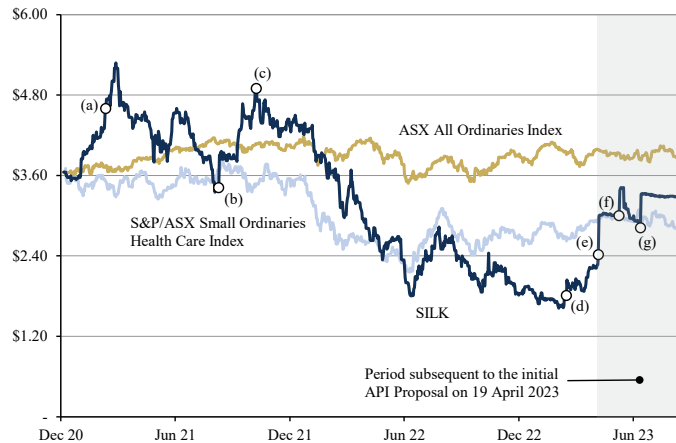
SILK – substantial shareholders ⁽¹⁾		
	Shares held	
	million	% interest
Advent Partners	6.6	12.5
FIL Limited	5.3	9.9
Ice Investors Pty Ltd	4.1	7.7
Harvest Lane Asset Management	3.6	6.8
Samson Rock Capital LLP	3.3	6.3
Martin Perelman Nominee	2.9	5.3
Total	25.8	48.5

Note:

- 1 Rounding differences may exist.

Share price performance

- 98 The following chart illustrates the movement in the share price of SILK since the date of ASX listing on 15 December 2020 up to 31 August 2023:

SILK – share price history⁽¹⁾**15 December 2020 to 31 August 2023****Note:**

¹ Based on closing prices. The ASX All Ordinaries Index and S&P/ASX Small Ordinaries Health Care Index has been rebased to SILK's closing price on 15 December 2020.

Source: FactSet, LEA analysis.

- 99 SILK's share price exhibited a relatively high level of volatility since listing on the ASX, noting that the S&P/ASX Small Ordinaries Health Care Index¹⁵ (and hence small healthcare related companies) has generally underperformed relative to the broader market over this period. Details of the ASX announcements that have coincided with material movements in the SILK share price over the above period are as follows:
- 25 February 2021** – the release of the results for 1H21, which reported that revenue and earnings exceeded expectations, resulting in upgraded FY21 guidance
 - 25 August 2021** – the release of the FY21 results, which reported revenue and earnings which exceeded management's previously upgraded guidance for the period
 - 21 October 2021** – SILK provided a trading update for the first quarter of FY22, indicating that network cash sales (excluding ASC and unadjusted for lost trading days due to closed clinics during COVID-19 lockdowns) had declined by some 14% on a like for like (LFL) basis
 - 28 February 2023** – SILK released its 1H23 results and provided a trading update, indicating that performance had been strong over the seven weeks ended 19 February 2023, with network cash sales and LFL sales increasing by 17% and 10% respectively relative to the prior corresponding period
 - 19 April 2023** – the announcement that API had provided a non-binding, indicative proposal to acquire 100% of SILK's outstanding ordinary shares for \$3.15 cash per share

¹⁵ This index includes healthcare companies included in the S&P/ASX 300 Index but not in the S&P/ASX 100 Index.

- (f) **23 May 2023** – SILK announced that it had received a competing, non-binding and indicative proposal from EC Healthcare to acquire 100% of SILK's outstanding ordinary shares for a price of \$3.35 cash per share, which represented a 6% premium to API's offer price
- (g) **26 June 2023** – the announcement that API had entered into a binding implementation deed with SILK to acquire 100% of SILK's outstanding ordinary shares for a revised offer of \$3.35 cash per share.

Liquidity in SILK shares

- 100 The liquidity in SILK shares based on trading on the ASX over the 12 month period prior to 19 April 2023¹⁶ is set out below:

SILK – liquidity in shares						
Period	Start date	End date	Shares traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
1 month	20 Mar 23	19 Apr 23	865	53,121	1.6	19.5
3 months	20 Jan 23	19 Apr 23	4,348	53,121	8.2	32.7
6 months	20 Oct 22	19 Apr 23	7,168	53,121	13.5	27.0
1 year ⁽⁴⁾	20 Apr 22	19 Apr 23	15,096	53,080	28.4	28.4

Note:

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.
- 4 Liquidity over the 12 month trading period was impacted by share trading restrictions associated with SILK's IPO voluntary escrow arrangements, which included approximately 4.8 million shares placed in escrow until 30 August 2022.

Source: FactSet, LEA analysis.

- 101 Trading in SILK shares has exhibited relatively low liquidity (on an annualised basis) over the periods set out above which reflects, inter alia, the reduced free float given four¹⁷ out of the six largest shareholders (which when combined, represent approximately 36% of total shares outstanding as at 30 June 2023) remained unchanged over the period.

¹⁶ Being the last trading day prior to the receipt of the API Indicative Proposal on 19 April 2023 (after trading hours).

¹⁷ Being Advent Partners, FIL Limited, Ice Investors Pty Limited, and Martin Perelman Nominee Pty Limited.

IV Industry overview

Overview

102 SILK operates primarily within the non-surgical aesthetic procedures segment of the broader health and beauty treatments market, details of which are as follows:

Australian health and beauty treatments market		
Segment	Description of services	Practitioner
Non-surgical aesthetic procedures	<ul style="list-style-type: none"> Involves minimal intervention using injections, light or chemicals Procedures include injectables and permanent hair reduction and skin treatment services 	Vocational certificate for permanent hair and skin treatments. Registered nurses and doctors for injectables
Health and beauty treatments	<ul style="list-style-type: none"> External skin-level treatments Services include facial masks, massage and personal maintenance such as hairdressing, waxing, tanning and nails 	Generally have vocational certificate
Invasive beauty treatments	<ul style="list-style-type: none"> Involves physical, surgical intervention Treatments include breast augmentation, facelifts, liposuction and nose reshaping 	Surgeon

103 This industry section focuses on the non-surgical aesthetics industry and covers SILK’s range of service offerings, including cosmetic injectables, laser hair removal and skincare procedures, skincare products and body contouring and fat reduction. A breakdown of the segments and the proportion of SILK’s FY23 revenue attributable to each of these products and services is provided below:

Operating segments of SILK		
Category	SILK products and services	Proportion of SILK FY23 revenue %
Injectables	<ul style="list-style-type: none"> Anti-wrinkle Dermal fillers Lip fillers Hydrating fillers Platelet rich plasma 	44
Hair removal	<ul style="list-style-type: none"> Laser hair removal 	28
Skincare procedures	<ul style="list-style-type: none"> Dermal peels Microdermabrasion Microneedling Various laser treatments 	13
Skincare products	<ul style="list-style-type: none"> Facial cleansers Moisturiser Anti-agers Serums 	11
Body contouring and fat reduction	<ul style="list-style-type: none"> EmSculpt (toning) CoolSculpting (fat reduction) 	4

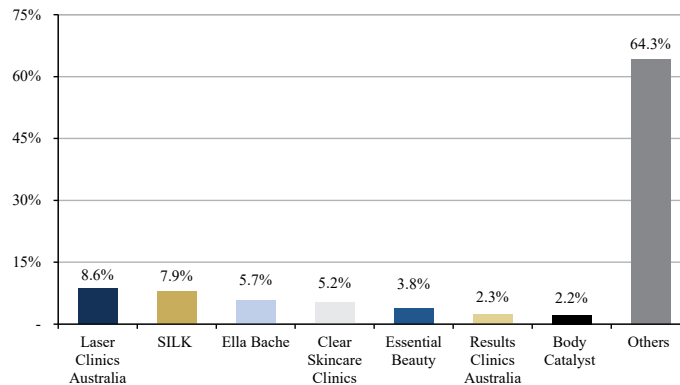
Distribution channels

- 104 The distribution channels for non-surgical aesthetic services vary based on the nature of services provided. For instance, cosmetic injectables are typically delivered by specialist clinics or medical providers due to the requisite qualifications of practitioners administering these procedures (i.e. a registered nurse or doctor) while other treatments such as hair removal services may be provided by beauty or hair salons. Additionally, select hair removal and skincare products are sold through grocery or pharmacy stores, as well as online marketplaces.
- 105 Accordingly, there tends to be competitors in addition to specialist clinics within each of SILK's market segments, as detailed below:
- (a) **injectables** – as indicated above, these procedures are required to be administered by registered nurses in Australia and specialist clinics are the primary providers of injectables. However, treatments can also be administered by conventional medical or dentist practices
 - (b) **hair removal** – long term hair removal procedures are typically provided by specialist clinics and beauty salons due to the equipment and facilities required. Less specialised beauty salons also offer a range of temporary and semi-permanent hair removal solutions such as waxing. Over the counter products such as hair removal creams also compete in this segment and are distributed by various retail outlets and e-commerce stores
 - (c) **skincare procedures** – are primarily provided by specialist clinics and beauty salons, however these can also be administered by conventional medical providers
 - (d) **skincare products** – are distributed through a range of downstream markets in addition to speciality clinics including supermarkets and grocery stores, speciality retailers, pharmacies and department stores. Online sales of skincare products have also significantly increased in recent years, with a number of skincare wholesalers operating their own e-commerce platforms or supplying pure-play online retailers
 - (e) **body contouring and fat reduction** – are distributed through specialist clinics, however, these services are also generally offered by medical practitioners that provide invasive beauty procedures such as liposuction.

Competitive landscape

- 106 As noted above, aside from specialist clinics, there tends to be a range of competitors such as medical providers (for injectables), beauty salons (for hair removal) and retail stores (for beauty products) that compete with SILK. In addition, the non-surgical aesthetics industry is highly fragmented, encompassing numerous small chain and boutique clinic operators, which collectively account for the largest proportion of clinics in Australia, as shown below:

**Estimated distribution of specialist clinics in Australia
As at June 2023**



Source: SILK.

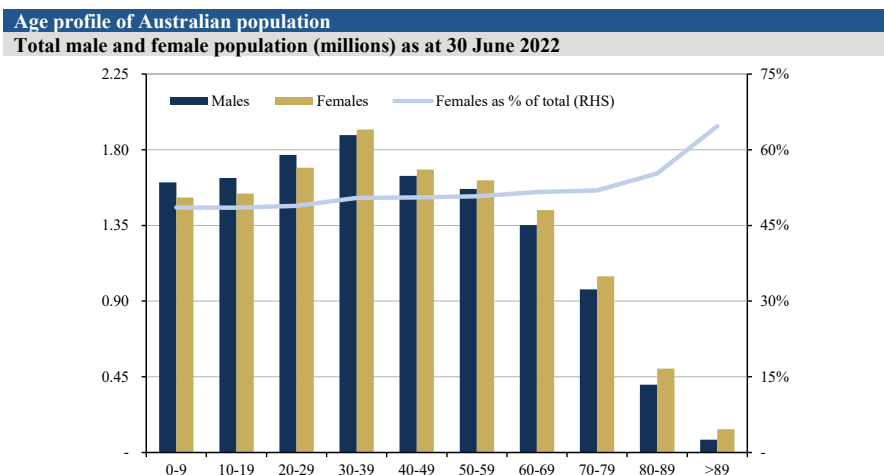
- 107 The non-surgical aesthetics industry exhibits high levels of competition, and industry operators compete on a range of factors, including:
- scale** – enables investment in people, technology, training and brand and also reduces clinic level costs, both of which provide the clinic operator with the ability to deliver improved client experience and better value. This is particularly relevant in respect of machinery and injectable products provided to clients
 - pricing** – clients consider price as a component of the clinic’s value proposition (particularly for laser hair services where consumers may weigh up the costs of laser hair removal treatments against the longer term costs of waxing / shaving), however pricing is generally less important for more specialist services such as cosmetic injectables and skincare services
 - selection and quality of services** – by offering a range of services that provide noticeable results, clients are more likely to continue to use the same trusted operator for their beauty needs
 - effectiveness** – the efficacy of the product or service can impact consumer decision making, noting different laser technologies and injectables can have different outcomes
 - clinic location** – convenient, accessible clinics with sufficient parking or access to public transport adds amenity to clients
 - client service levels** – given the sensitivity of some of the services provided, clinics focus on forming strong and trusting client relationships
 - technical expertise** – the ability to perform treatments in a safe and efficient manner is important in developing trust and long-lasting client relationships
 - brand strength** – clients value trusted and quality brands and are more likely to obtain services with a clinic they are familiar with.

Demand drivers

108 The key factors that drive demand in the non-surgical aesthetics industry include the proportion and trends of the population represented by the industry's target demographic (i.e. women), social aspects such as beauty trends, product longevity and economic factors such as the levels of disposable income and consumer sentiment.

Target demographic

109 Women, particularly those aged between 20 and 50 years old, are the largest market within the non-surgical aesthetics industry, and growth in this demographic typically drives demand for beauty treatments. Women also represent a larger proportion of older age demographics within Australia, which supports demand for key anti-aging services provided by the industry, such as cosmetic injectables, skin treatments, and skincare products. The below chart sets out the age profile of the Australian population, including the proportion of each age bracket represented by females:



Source: Australian Bureau of Statistics (ABS): *National, state and territory population, December 2022*, and LEA analysis.

Social trends

110 Beauty trends and social influence also play a major role in driving demand in the non-surgical aesthetics industry, an overview of which is as follows:

- (a) **cosmetic injectables** – the acceptance of cosmetic injectables among women is rising as anti-aging solutions become increasingly sought after. Furthermore, the promotion of anti-wrinkle and dermal filler treatments by celebrities and influencers has expanded the target audience beyond the traditional 40 years and above age group to include younger individuals
- (b) **hair removal** – ongoing social trends indicate a continued preference for long-term hair removal. The accessibility of permanent hair reduction treatments has increased due to technological advancements and enhanced price competitiveness, resulting in increased affordability of procedures

- (c) **skincare procedures and products** – there is growing emphasis on wellness and self-care among society, leading to heightened attention towards skin health and appearance. This factor became particularly prevalent during COVID-19, as many home-bound consumers turned to do-it-yourself and at-home beauty products as part of new at-home wellness trends
- (d) **body** – the desire for a healthy figure is changing from the notion of being “skinny” to a more advanced and holistic concept of being “fit”. This has expanded the range of treatments used by customers in the industry.

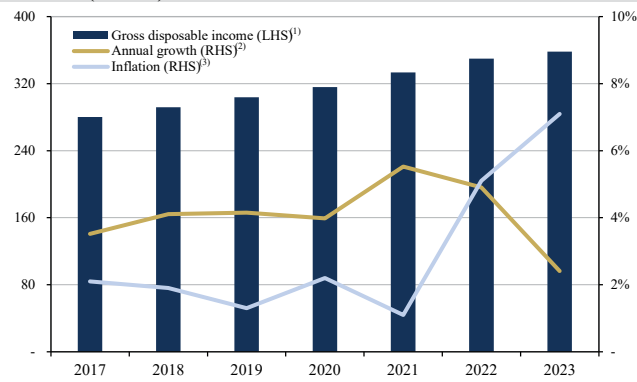
Product longevity

111 Laser hair removal services are generally marketed as permanent solutions notwithstanding some maintenance services will be required after the initial rounds of treatment. In comparison, customers who use cosmetic injectable services are more likely to exhibit stronger repeat purchasing behaviors due to the temporary effectiveness of these products (generally around four months). Accordingly, demand for non-surgical aesthetics can vary depending on the level of existing market penetration across the range of services provided.

Real household disposable income

- 112 As consumer preferences and trends evolve, non-surgical aesthetics are gradually integrating into everyday beauty routines, and are being viewed as less discretionary expenses. Nevertheless, demand for non-surgical aesthetic services is influenced by real household disposable income¹⁸ as consumers pay for these services using their discretionary income¹⁹.
- 113 When disposable income is rising, consumers’ propensity to spend tends to increase. However, when disposable income falls consumers are more likely to reduce expenditure by foregoing or postponing discretionary purchases and services. Whilst national gross disposable income in Australia has continued to increase in recent years (as shown below), in the two years to 31 March 2023 inflation levels have been higher than disposable income growth, which has resulted in declining real disposable income levels:

Gross disposable income and inflation in Australia
Year ended 31 March (billions)



¹⁸ Real household disposable income reflects consumer household income after accounting for essential expenses such as food and groceries, interest on mortgages and/or rent and utilities.
¹⁹ Non-surgical aesthetic services are generally not covered by Medicare or standard private health insurance.

Note:

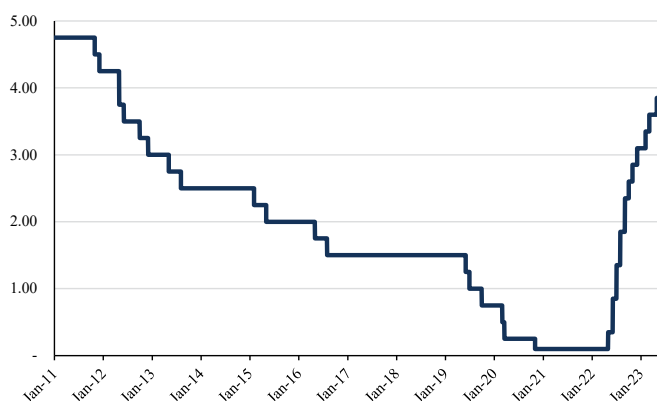
- 1 Refers to a measurement of national gross disposable income.
- 2 Refers to annual growth in national gross disposable income.
- 3 Refers to annual change in consumer price index.

Source: ABS: *Australian National Accounts, National Income, Expenditure and Product March 2023 and Consumer Price Index in Australia, March 2023*, and LEA analysis.

Inflation and interest rates

- 114 As inflation has driven price increases for essentials like groceries, petrol and rent, a larger portion of consumers' existing earnings has been required to cover the rising costs of these necessities, and as a result household disposable incomes have faced increasing pressure. Notwithstanding inflation easing slightly from the peak levels reported in the December 2022 quarter, inflation remains around its highest level since 1990.
- 115 The Reserve Bank of Australia (RBA) has responded to rising inflationary pressures by a number of rapid increases to the cash rate (the speed and quantum for which is unprecedented), with the cash rate now at levels not experienced since 2012:

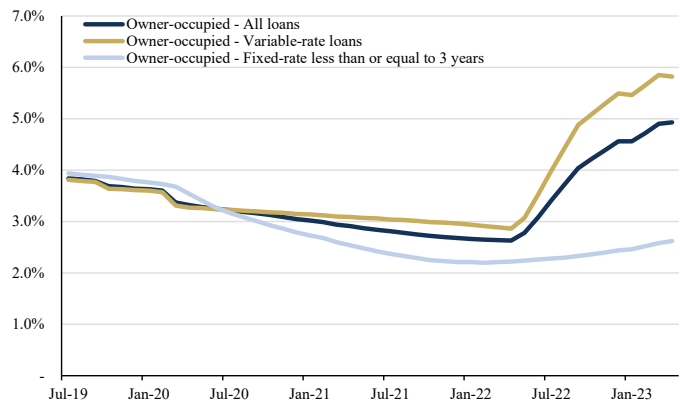
RBA cash rate (%)
1 January 2011 to 30 June 2023



Source: RBA Table F1, LEA analysis.

- 116 The increases in the RBA cash rate have resulted in substantially higher interest rates and hence loan repayments for households with variable rate mortgages. However, there remain a number of households with fixed rate mortgages that are paying interest rates at levels substantially below current variable rates, as shown below:

Housing indicator lending rates – owner occupied



Source: RBA Table F6, LEA analysis.

- 117 As these fixed rate loans mature and owners look to refinance, the interest rates and hence loan repayments will increase significantly, which is expected to place further pressure on household disposable income.
- 118 However, whilst increasing mortgage rates impact households with a mortgage (35% of households²⁰), and rising rents to cover increased interest rates impacts renters (30% of households²⁰), there is a significant proportion of the population that own a home outright (31% of households²⁰) and these households are not impacted by higher interest rates (and may actually benefit through higher interest rates on cash deposits).
- 119 Additionally, the impact of rising inflation and interest rates on demand for non-surgical aesthetic services is likely to vary, with services targeted towards younger and more price sensitive age cohorts (such as laser hair removal) likely to exhibit a greater degree of volatility than cosmetic injectables which are generally targeted towards older and less price sensitive consumers.

Consumer sentiment

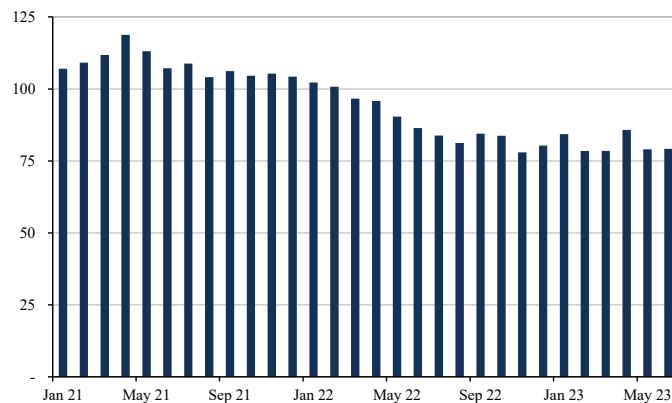
120 The Consumer Sentiment Index²¹ measures the confidence consumers have in present and future economic conditions, and can also provide an indication of expected changes in future discretionary spending. An index result above 100 indicates that consumers are optimistic about present and future economic conditions (and may increase discretionary spending), whilst an index result of less than 100 indicates consumers are uncertain or pessimistic about economic conditions (and may decrease discretionary spending). Since a high of 118.8 in

²⁰ According to the 2021 Census, 35% of Australia’s homes were owned with a mortgage, while 31% were owned outright and 30% were rented. Source: <https://www.abs.gov.au/statistics/people/housing/housing-census/latest-release>.

²¹ Prepared by the Westpac-Melbourne Institute.

April 2021 the Consumer Sentiment Index has decreased to 79.2 as at June 2023, as shown below:

Australian Consumer Sentiment Index⁽¹⁾
January 2021 to June 2023



Note:

¹ The Consumer Sentiment Index measures the change in the level of consumer confidence in economic activity. A level above 100 indicates optimism, whilst below 100 indicates pessimism.

Source: Westpac-Melbourne Institute Consumer Sentiment Index monthly reports and LEA analysis.

- 121 Whilst disposable income growth is declining and the Consumer Sentiment Index is at relatively low levels, research from the American Society of Plastic Surgeons indicates that the non-surgical aesthetics industry may exhibit defensive characteristics. For example, during the global financial crisis in 2008, minimally-invasive cosmetic procedures experienced 5% year on year growth in the United States of America, as repeat patients and customers put off more expensive surgical procedures in favour of less invasive (and costly) treatments²².

Barriers to entry and regulation

- 122 Barriers to entry are low to moderate for the non-surgical aesthetics market in general, and primarily relate to entry costs associated with purchasing laser machinery and products such as face creams and injectable fillers, as well as lease expenses and clinic fittings. However, the footprint of existing operators located in high traffic and convenient locations with an established client base may limit the ability for new participants to successfully enter and compete in more mature geographic locations.
- 123 Additionally, there are a number of specialist services that exhibit a degree of medical overlap, and operators must adhere to strict regulatory requirements in order to deliver treatments, which can pose as a barrier for new entrants.
- 124 In order to undertake certain procedures such as injectables in Australia, a registered nurse that holds a graduate diploma in cosmetic nursing and injectables is required to undertake the procedure. Additionally, SILK's clinics administering cosmetic injections must comply with

²² American Society of Plastic Surgeons, *Recession Cuts Many, Not All Plastic Surgery Procedures*, 25 March 2009.

State and Territory legislation for the prescription and administration of cosmetic injections, which are classified as Schedule 4 (prescription only) drugs under the *Therapeutic Goods Act 1989* (Cth)).

- 125 As at 1 July 2023, updated regulations for non-surgical cosmetic procedures were introduced which included stricter rules with regards to patient suitability, consent, and advertising. In addition, general operational procedures were implemented with the aim of creating a safer environment for patient and provider. These regulations are set out by the Australian Health Practitioner Regulation Agency²³ and apply to medical practitioners who perform cosmetic surgery and non-surgical cosmetic procedures.
- 126 Regulations for laser services differ across Australian States and Territories in Australia. In Western Australia²⁴, Tasmania²⁵ and QLD²⁶, employees that operate laser hair removal devices must possess a laser licence, and companies are required to maintain a radiation management plan in accordance with respective State radiation safety legislation. These plans outline facility details, activities, radiation sources, risks, control measures, and compliance measures for each applicable regulation.
- 127 In Australia, skincare products that are not marketed as providing therapeutic benefits are considered cosmetic only and do not require registration on the Australian Register of Therapeutic Goods or a safety assessment. However, these products must adhere to safety standards defined by Australian Consumer Law for regular human consumption.

²³ Australian Health Practitioner Regulation Agency, *Guidelines for registered medical practitioners who perform cosmetic surgery and procedures*, 21 April 2023.

²⁴ Government of Western Australia Radiological Council, *Radiation Safety Act 1975*, updated 5 April 2023.

²⁵ Tasmanian Government, *Radiation Protection Regulations 2016*, updated 1 July 2023.

²⁶ Queensland Government, *Radiation Safety Regulations 2021*, updated 1 July 2022.

V Valuation of SILK

Overview

- 128 The market value of the shares in SILK has been assessed by aggregating the market value of its business operations (on a "control" basis), together with the realisable value of any surplus assets / (liabilities) and deducting net borrowings. The valuation of SILK's business operations has been undertaken on the basis of market value as a going concern, defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length within a reasonable timeframe.
- 129 An overview of generally accepted valuation approaches used in the determination of market value is set out in Appendix C. The capitalisation of EBITDA methodology has been adopted as our primary valuation method for SILK's business operations. Under this method the underlying EBITDA (before significant / non-recurring items) of the business is capitalised at an EBITDA multiple that reflects the risk and growth prospects of that business. The value of the shares in SILK is then derived by adding the net realisable value of surplus assets (if any) and deducting net interest bearing debt.
- 130 As a secondary valuation methodology we have also assessed the value of SILK's business operations (on a cash and debt free basis) adopting the discounted cash flow (DCF) methodology, based on cash flow projections prepared by LEA, having regard to SILK's FY24 budget²⁷, analyst forecasts and a range of operating parameters.
- 131 We have cross checked our assessed value of the equity in SILK (on a per share basis) with the listed market prices of SILK shares on the ASX prior to the announcement of the API Indicative Proposal, which we have adjusted to reflect a premium for control.

Assessment of EBITDA for valuation purposes

- 132 In order to assess the appropriate level of EBITDA for valuation purposes we have had regard to historical and budgeted results of the business, available analyst forecasts, and discussed the recent financial performance and operating environment with SILK management.

Underlying EBITDA

- 133 We set out below a summary of revenue, Adjusted EBITDA (as reported by SILK) and Underlying EBITDA (including a number of other adjustments) for SILK for the two years to FY23 (noting results prior to these periods are not considered relevant):

²⁷ This budget is commercially sensitive and has not been disclosed.

SILK – Underlying EBITDA⁽¹⁾		
	FY22	FY23
	\$m	\$m
Total trading sales	67.8	79.9
Franchise revenue	13.6	17.7
Total revenue	81.3	97.6
Adjusted EBITDA	22.0	24.8
Removal of impact of AASB 16 ⁽²⁾	(5.0)	(5.3)
Movements in unearned income ⁽²⁾	(1.8)	(1.4)
JV50 clinics – deduct share of net profit / (loss) ⁽²⁾	(0.6)	(0.8)
JV50 clinics – add share of EBITDA ⁽²⁾	1.8	1.8
JV75 clinics – deduct EBITDA from non-controlling interests ⁽²⁾	(0.5)	(0.4)
Underlying EBITDA	16.0	18.7
<i>Adjusted EBITDA margin (based on total revenue)</i>	<i>27.1%</i>	<i>25.4%</i>
<i>Underlying EBITDA margin (based on total revenue)</i>	<i>19.7%</i>	<i>19.2%</i>
<i>Underlying EBITDA growth</i>	<i>8.7%</i>	<i>17.2%</i>
<i>Total clinic network (at period end)</i>	<i>122</i>	<i>145</i>

Note:

- 1 Rounding differences may exist.
- 2 Refer paragraph 134 below.

- 134 As shown above, to determine Underlying EBITDA we have made a number of adjustments to the Adjusted EBITDA reported by SILK. These adjustments are as follows.
- (a) **removal of impact of AASB 16** – the results have been adjusted to exclude the impact of changes required under AASB 16, which provides an uplift to EBITDA as it replaces cash rent expenses with depreciation of “right of use” assets as well as interest expense associated with lease liabilities (both of which are recognised below the EBITDA line). In our view, this EBITDA uplift should be excluded as it is simply an accounting convention which has no cash flow impact or impact on the underlying profitability of SILK
 - (b) **movements in unearned income** – the results have been restated to a cash basis (rather than accrual basis). This adjustment includes an add back for the movements in unearned revenue liabilities in addition to any breakage revenue (being the portion of prepaid sales that are unlikely to be redeemed before expiring)
 - (c) **JV50 adjustments** – these adjustments allow for SILK’s pro-rata “see through interest” in the underlying cash EBITDA generated from its JV50 clinics (which are reported by SILK as profits recognised under equity accounting which does not reflect the EBITDA contribution from these clinics)
 - (d) **JV75 adjustments** – represents the share of EBITDA attributable to non-controlling interests in the JV75 clinics, which are consolidated for financial reporting (i.e. reflected in SILK’s reported Adjusted EBITDA) but not attributable to SILK shareholders.

135 Regarding SILK's financial results we note that:

- (a) as stated in paragraph 80 of Section III, given the number of acquisitions undertaken by SILK recently which has resulted in a significant increase in network cash sales, we do not consider the revenue and Underlying EBITDA for SILK prior to FY23 to be representative of future financial performance for the Company
- (b) whilst the FY23 results include a full year contribution from the ASC and Unique Laser acquisitions, Eden was acquired effective 1 March 2023. Therefore the results for SILK for FY23 only include an approximate four month contribution from Eden²⁸. Including an allowance for the additional eight months of Eden's FY23 results prior to the acquisition, revenue and Underlying EBITDA (pre-AASB-16)²⁹ would have been \$8.5 million and \$1.5 million higher respectively
- (c) the increase in average client spend across SILK's injectables services (the largest category) during FY23 was some 6.0%³⁰ which was principally driven by price increases implemented during the period³¹. Laser hair removal and skincare services have also recently had a number of strategic price increases implemented during FY23 which contributed to revenue growth from these services
- (d) over the first eight weeks of trade in FY24, LFL cash sales growth (excluding NZ clinics³²) was some 5% across the Australian network
- (e) as at 30 June 2023 there were 19 Infant and 31 Intermediate clinics which accounted for some 14% and 22% respectively of SILK's total clinic network³³. Historically SILK has benefited as the younger clinics matured and ramped up revenue and earnings.

EBITDA for valuation purposes

- 136 Based on the above we have adopted EBITDA for valuation purposes (pre AASB 16) of \$20.0 million which broadly reflects the historical Underlying EBITDA generated during FY23 after allowing for the full year contribution from the acquisition of Eden.
- 137 We have reflected the further growth potential in SILK's earnings (e.g. attributable to the pro-forma earnings potential of the Infant and Intermediate clinics as they mature, synergy benefits from the acquisition of Eden, further new store openings and other growth initiatives more generally) in our determination of the appropriate EBITDA multiple range (as set out below).

²⁸ Eden contributed revenue of \$3.7 million in this period. The Underlying EBITDA contribution from Eden over this period was not material.

²⁹ That is, prepared on a similar basis to the Underlying EBITDA set out in paragraph 133 above.

³⁰ Being an increase in average client spend from \$914 to \$969.

³¹ During FY23 price increases to SILK's injectables services were some 8% (the most significant of these price increases were implemented around October 2022).

³² Which have exhibited a material decline compared to the prior period.

³³ Infant refers to clinics that have been open for less than two years and Intermediate refers to clinics that have been open for between two and four years.

EBITDA multiple

138 The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- | | |
|---|--|
| <ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors | <ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings |
|---|--|

139 We discuss below specific factors taken into consideration when assessing the appropriate EBITDA multiple range for SILK.

Listed company multiples

140 As set out in Section IV, the non-surgical aesthetics industry is highly fragmented and largely represented by numerous privately held small chain and boutique clinic operators, with only a select number of larger clinic groups like SILK. Of the larger participants in the non-surgical aesthetics industry:

- (a) Laser Clinics Australia, which operates a network of over 200 clinics, is privately held
- (b) Ella Bache, which operates a number of salons that focus on skincare solutions and products in Australia, is a subsidiary of French the multi-national company by the same name
- (c) Clear Skincare Clinics is owned by API
- (d) the other larger participants in the industry (Essential Beauty, Results Clinics Australia and Body Catalyst) are all privately held entities.

141 As a result there are no directly comparable listed companies to SILK. Accordingly, we have had regard to the trading multiples for a number of ASX listed small to mid-cap³⁴ companies which operate in the healthcare industry, a summary of which is set out below³⁵:

³⁴ Having regard to the size of SILK, we have included relevant ASX listed healthcare companies with an enterprise value of less than \$1.0 billion.

³⁵ On 31 August 2023, Healthia (an ASX listed provider of Allied Health Services) entered into a Scheme Implementation Deed with an entity associated with Pacific Equity Partners that represented a significant premium (some 85%) to Healthia's closing share price. The implied trading multiples for Healthia have therefore been excluded from our trading multiple analysis and included in our transaction multiple analysis.

Listed company trading multiples ⁽¹⁾					
Company	Sub sector	Enterprise value ⁽²⁾ \$m	Gearing ⁽³⁾ %	EBITDA multiples	
				FY23 ⁽⁴⁾⁽⁵⁾ x	FY24 ⁽⁴⁾⁽⁶⁾ x
SILK	Specialist beauty	127	(1.3)	6.3	5.5
Australian healthcare companies					
Integral Diagnostics	Diagnostic imaging	930	22.0	14.0	11.7
Australian Clinical Labs	Pathology	622	7.4	9.1	10.0
Monash IVF Group	In vitro fertilisation	512	7.9	11.7	10.2
Capitol Health	Diagnostic imaging	295	18.7	10.9	9.3
Pacific Smiles Group	Dentistry	209	(4.6)	8.7	6.4

Note:

- 1 A brief description of each of the above companies' operations is set out in Appendix D.
- 2 Enterprise value (EV) and earnings multiples calculated as at 28 August 2023 except for SILK which is calculated as at 19 April 2023, being the last trading day prior to the receipt of the API Indicative Proposal. EV includes net debt (interest bearing liabilities less non-restricted cash), net derivative liabilities, excludes surplus assets and net debt excludes AASB 16 lease liabilities.
- 3 Gearing equals net debt divided by EV.
- 4 The EBITDA multiples have been adjusted to remove the estimated impact of AASB 16.
- 5 Historic EBITDA is based on latest statutory full year accounts and exclude non-recurring items, significant write downs, realised investment gains or losses and restructuring charges.
- 6 Earnings and margins are based on FactSet analyst forecasts (excluding outliers and outdated forecasts).

Source: FactSet, company announcements and LEA analysis.

- 142 The above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical research undertaken by LEA indicates that the average premium paid above the listed market price of equity in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover)³⁶. However, this usually translates to a lower premium at the EBITDA multiple or enterprise value level, depending on the level of debt funding employed in each company.
- 143 In addition, we note that:
- (a) the majority of the listed companies set out above are larger than SILK. In this regard we note that, all else equal, smaller listed companies generally trade on lower multiples than larger listed companies
 - (b) notwithstanding the differences in size, the Australian healthcare companies are broadly exposed to some of the same industry and market and industry factors as SILK (i.e. macroeconomic and industry conditions, dependency on key health professional staff to deliver services, operating through a network of clinics or centres etc.)
 - (c) healthcare companies are typically funded by a combination of Federal Government funding (e.g. Medicare rebates), private health insurance and out of pocket expenses

³⁶ LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2022. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts and listed investment companies, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

(albeit to different extents depending on the type of healthcare services provided). In comparison, SILK's services are not covered by any government funding or private health insurance and are entirely dependent on consumer discretionary incomes

- (d) Integral Diagnostics (and to a lesser extent Capitol Health) have recently experienced a material decline in EBITDA margins due to limited price increases from Medicare indexation combined with cost pressures from higher labour costs (driven by inflation and labour market supply constraints) and increases in other costs
- (e) Pacific Smiles also recently experienced a material decline in EBITDA margins (the business was significantly impacted by COVID-19 and reduced patient volumes) and while conditions have since improved, FY23 margins remain significantly below pre COVID-19 levels
- (f) the multiples are based on closing prices at a point in time and are not necessarily representative of the range of multiples that the companies trade on over time.

Transaction evidence

- 144 Due to the highly fragmented characteristic of the non-surgical aesthetic services industry, there are a limited number of transactions involving larger (scaled) providers. A summary of these transactions and the implied EBITDA multiples is set out in the following table:

Transaction evidence – larger non-surgical aesthetic clinic operators						
Date ⁽¹⁾	Target	Acquirer	EV 100% ⁽²⁾ (\$m)	EBITDA multiple x	No. of clinics	EV per clinic \$m
Jun 21	ASC	SILK	52.0	10.6F	55	0.9
Jun 18	Clearskincare Clinics	API	127.4 ⁽³⁾	8.9F ⁽³⁾	44	2.9
Aug 17	Laser Clinics Australia	KKR & Co	650.0	14.0F ⁽⁴⁾	80	8.1

Note:

- 1 Date of announcement.
- 2 EV on a 100% basis.
- 3 Based on the total amount of instalments payable over a three year period (before any present value discounts) and excluding any allowance for the contingent consideration (capped at \$20 million) if certain hurdles were met. We note that if present value adjustments were applied to the instalment amounts (at small business lending rates) and the contingent consideration was risk adjusted, the total consideration implied by the transaction is largely consistent with that set out above.
- 4 Based on press commentary (refer to paragraph 145(a) below).

H = multiple based on historical EBITDA. F = multiple based on forecast EBITDA.

Source: LEA analysis using data from ASX announcements, analyst reports, company annual reports and press articles.

- 145 In respect of the above transactions, we note that:

- (a) the financial terms of the transaction for KKR's acquisition of Laser Clinics Australia (which also included the Skinstitut Australia skincare business) were not publicly disclosed and the purchase price and implied EBITDA multiple is based on press commentary³⁷. As such there is no way of validating the reliability of this information

³⁷ Press commentary stated the purchase price to be in the "mid-\$600 millions" which represents an "earnings multiple" of between 13 and 15 times.

- (b) the implied EBITDA multiples for the acquisitions of ASC Group and Clear Skincare Clinics are considered more relevant to our assessment of an EBITDA multiple for SILK for valuation purposes. Further details of these transactions are set out below.

SILK acquisition of ASC Group

- 146 On 18 June 2021, SILK announced it had entered into binding agreements to acquire ASC for total consideration of \$52.0 million³⁸ which represented (on a pre AASB-16 basis) an implied EBITDA multiple of 10.6 times before synergies, and 9.6 times including estimated synergies³⁹.
- 147 At the time of acquisition, ASC operated a network of 55 clinics across Australia and NZ comprising 41 clinics operating under the ASC brand (including 34 traditional franchise clinics, 4 JV franchises and three corporate clinics) and 14 traditional franchise clinics in NZ (trading as TCC, all operating under a Country Development License).
- 148 The acquisition of ASC was strategically significant for SILK as it accelerated SILK's growth strategy (almost doubling the size of SILK's existing network at the time) and provided the Company with a scaled entry into VIC and NZ, two markets that SILK had no presence in prior to the transaction. In addition, ASC's operations had low capital requirements (with its network largely comprising traditional franchised clinics) and the acquisition was expected to deliver significant benefits to SILK when integrated into its existing operations.

API acquisition of Clear Skincare Clinics

- 149 On 25 June 2018, API announced the acquisition of the assets of Clear Skincare Clinics and its products business for a total consideration of \$127.4 million to be paid over three stages from July 2018 to September 2021 (with API's ownership interest increasing from 50.1% to 100% over this period). In addition, a further \$20 million was payable if certain performance hurdles were met in 2020 and 2021. The transaction was stated as representing an implied a multiple of 8.9 times forecast FY19 EBITDA⁴⁰ and a weighted average EBITDA multiple of 7.6 times over the three year instalment period.
- 150 At the time of acquisition, Clear Skincare Clinics operated a network of 44 company owned and JV clinics across Australia and NZ. The acquisition of Clear Skincare Clinics was strategically significant for API, represented a key area of growth following completion and was expected to be earnings accretive immediately upon completion.

Smaller laser and beauty clinic transactions

- 151 There have also been a number of transactions for smaller laser and beauty clinic operators⁴¹. A summary of these smaller transactions is set out below:

³⁸ Comprising upfront consideration of \$47.0 million (on a cash and debt free basis and assuming a normal level of working capital) and contingent consideration of \$5.0 million (dependent on the ASC business achieving targets in relation to the opening of new clinics).

³⁹ Of \$0.5 million per annum targeted to be realised after a one-year implementation period.

⁴⁰ Based on the total instalments payable over the three year period totalling \$127.4 million (i.e. before any allowance for present value adjustments or the potential maximum \$20 million of contingent consideration).

⁴¹ While there are likely a reasonable number of precedent transactions involving the sale of interests in individual franchised clinics (e.g. the sale of interests in Laser Clinics Australia franchises as advertised on the company's website) the price and basis on which these sales occur is not publicly available.

Transaction evidence – smaller non-surgical aesthetic clinics						
Date ⁽¹⁾	Target	Acquirer	EV 100% ⁽²⁾ (\$m)	EBITDA multiple x	No. of clinics	EV per clinic \$m
Dec 22	Eden Laser Clinics	SILK	8.4	6.0F	10	0.8
Jul 22	Unique Laser	SILK	0.6	1.0F	5	0.1
Feb 21 to Apr 21	Coco / Cosmetic Clinic	Vita Group	2.8 ⁽³⁾	nm ⁽⁴⁾	2	1.4
Jul 19 to Feb 20	Various clinics	Vita Group	5.3 ⁽³⁾	nm ⁽⁴⁾	8	0.7
Nov 18 to Jun 19	Various clinics	Vita Group	7.4 ⁽³⁾	5.9F ⁽⁵⁾	6	1.2
May 18	Artisan Cosmetic & Rej. Clinic	Vita Group	1.5	4.1F	1	1.5
Nov 17	Clear Complexion	Vita Group	9.5	9.7F	6	1.6
Aug 17	Artisan Rej.Clinic	Total Face Group	2.1	3.5F	1	2.1
Jun 16	Cozmedics	Total Face Group	5.4	4.5F	3	1.8
Jun 16	Endless Solutions	Total Face Group	0.8	4.5F	1	0.8
Jun 16	Facial Artistry	Total Face Group	2.2	4.5F	1	2.2
Oct 15	Heber Davis	Total Face Group	2.6 ⁽⁶⁾	4.7F ⁽⁶⁾	1	2.6

Note:

- 1 Date of announcement.
 - 2 EV on a 100% basis.
 - 3 Based upon the aggregate consideration paid for all clinics and includes the expected contingent consideration payable as estimated by Vita Group management.
 - 4 It is not possible to determine the aggregate EBITDA multiple paid as either the acquisitions included clinics that made losses in FY20 due to COVID-19 or the aggregate EBITDA contribution for the acquired clinics was not disclosed by Vita Group.
 - 5 Based on aggregate EBITDA contribution from all clinics in FY19.
 - 6 Includes earn-out and assumes EBITDA earn-out target met.
- H = multiple based on historical EBITDA. F = multiple based on forecast EBITDA.
nm – not meaningful.

Source: LEA analysis using data from ASX announcements, analyst reports and company annual reports.

- 152 The EBITDA multiples implied by the smaller transactions range from 3.5 times to 6.0 times (excluding outliers), with a median of 4.5 times. Accordingly, the acquisitions of smaller / individual clinic operators have generally transacted on significantly lower EBITDA multiples relative to larger clinic network operators. Overall, given (inter alia) the difference in size and diversification, in our opinion, the appropriate EBITDA multiple for SILK should be materially higher than these respective transactions.

Other Healthcare transaction evidence

- 153 In addition to the above, we set out below a summary of the transaction multiples observed from the acquisition of other Australian and NZ healthcare companies more generally (which in most cases reflected the acquisitions of controlling interests)⁴²:

⁴² We have considered transactions with an enterprise value of between \$20 million and \$1.0 billion.

Transaction evidence – other healthcare companies ⁽¹⁾		
	Enterprise value ⁽²⁾ \$m	EBITDA multiple ⁽³⁾ x
Allied health companies (6 transactions)		
Low	43	6.0
High	397	12.0
Median	90	7.5
Diagnostic imaging companies (13 transactions)		
Low	25	7.3
High	108	8.6
Median	42	8.1
Other healthcare services companies (15 transactions)		
Low	21	6.3
High	938	13.7
Median	105	8.6

Note:

- 1 Further details regarding these transactions is set out in Appendix E.
- 2 On a 100% basis.
- 3 Represents forecast multiples where available, otherwise historical multiples are used.

- 154 In relation to the transaction evidence it should be noted that:
- (a) the transactions typically relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control
 - (b) the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings
 - (c) transactions involving the acquisition of larger companies that operate a network of clinics / franchises have generally transacted on higher EBITDA multiples relative to smaller / individual clinic operators. In this respect we note that transaction evidence for the Allied Health and Diagnostic Imaging companies generally related to smaller acquisitions, with a median transaction value of \$90 million and \$42 million respectively.

Other factors

- 155 In order to assess the appropriate range of multiples to apply, we have also had regard to other factors (inter alia):
- (a) **regulatory environment** – as noted in Section IV, certain procedures provided by non-surgical aesthetics clinics are regulated by State and Territory Governments, with strict regulations recently introduced in respect of minimum qualification requirements to deliver non-surgical cosmetic procedures. Larger operators that are able to attract talented and qualified medical professionals (through incentives such as profit share and joint ownership arrangements) are likely to withstand stricter regulations relative to small / individual clinic operators

- (b) **threat of new entrants** – with exception to regulatory barriers, there are no significant barriers to entry into the non-invasive aesthetic industry, and SILK has recently seen increased competition through a number of new independent operators entering the market in addition to continued growth in the network size of larger industry participants
- (c) **capital expenditure requirements** – capital expenditure requirements can vary based on the ownership models employed by clinic network operators, however overall, SILK’s operations require a relatively low level of capital expenditure relative to revenue.

Potential synergies

- 156 API has not provided any specific guidance on the level of synergies it expects to realise from the acquisition of SILK. However, if the Scheme is approved and implemented, SILK will be delisted from the ASX, resulting in the elimination of listed public company costs (e.g. director fees, listing fees, share registry fees, shareholder communication costs etc.). Depending upon the identity of the acquirer, it is conceivable that other synergies (e.g. back office costs savings) could also be generated.
- 157 However, we note that the existence of public company cost savings as well as other cost (and revenue) synergies that arise from acquisitions / privatisations are one of the key reasons why bidders pay a premium to acquire a company.
- 158 Accordingly, in our opinion, it is inappropriate (in the circumstances of SILK) to incorporate a separate value for synergies over and above that implicitly reflected in the controlling interest multiple applied.

EBITDA multiple adopted for valuation purposes

- 159 Having regard to the above, we have adopted an EBITDA multiple range of 8.5 to 9.5 for SILK. This range is:
- (a) broadly consistent with the range of EBITDA multiples implied by the ASC Group and Clear Skincare Clinics transactions, noting that whilst SILK is a larger and more diversified business, both of these businesses provided significant strategic benefits to the respective acquirers and absent these benefits, the observed multiples for these transactions may have been lower. Both of these transactions also occurred prior to the beginning of 2022, and therefore do not reflect, inter alia, the impacts of rising global inflation and interest rates (in response to rising inflation)
 - (b) generally higher than the observed multiples from the other healthcare transaction evidence, noting a significant number of these transactions related to the acquisition of companies smaller than SILK (further noting larger companies generally transact on higher multiples than smaller companies)
 - (c) lower than the implied EBITDA multiples for the listed healthcare companies (after the application of a control premium), which, in our opinion, is appropriate due to differences in size and diversification (which tends to increase implied multiples all other things equal) as well as differences in exposure to household discretionary income.



Enterprise value under the EBITDA methodology

160 Having regard to the above, we have assessed a capitalisation of earnings based value for the SILK business (on a cash and debt free basis) as follows:

SILK - enterprise value		
	Low	High
	\$m	\$m
Maintainable EBITDA	20.0	20.0
EBITDA multiple (x)	8.5	9.5
Enterprise value	170.0	190.0

DCF methodology

161 As noted above, as a secondary valuation methodology, we have assessed the value of SILK's business operations (on a cash and debt free basis) adopting the DCF methodology. Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

Cash flow projections

162 Our DCF valuation is based on free cash flow projections compiled by LEA, having regard to a number of factors including SILK's FY24 budget⁴³, analyst forecasts and a range of operating parameters. The related underlying cash flows have been prepared solely for valuation purposes.

163 Whilst LEA believes the assumptions underlying the cash flows are reasonable and appropriate for valuation purposes, it should be noted in respect of these projections that:

- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
- (b) the projections and the underlying assumptions have not been reviewed by an investigating account for reasonableness or accuracy of compilation and application of assumptions
- (c) future profits and cash flows are inherently uncertain
- (d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which SILK operates
- (e) the achievability of the projections is not warranted or guaranteed by LEA or SILK, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of SILK and its management; and
- (f) actual results may be significantly more or less favourable.

⁴³ As previously indicated, this budget is commercially sensitive and has not been disclosed.

- 164 Free cash flow represents the operating cash flows on an un-g geared basis (i.e. before interest) less taxation payments⁴⁴, capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.
- 165 The free cash flow projections cover a five year period to 30 June 2028⁴⁵. For valuation purposes we have adopted a valuation date of 1 July 2023. A terminal value has been adopted at the end of the forecast period.

Revenue

- 166 As indicated at paragraph 135(b), SILK's reported results for FY23 only included a four month contribution from the acquisition of Eden. The table below sets out SILK's FY23 pro-forma revenue including a full year contribution from Eden:

SILK – pro-forma FY23 revenue	
	FY23 \$m
SILK reported total revenue	97.6
Additional revenue from Eden (if owned for the full year)	8.5
Total pro-forma revenue	106.1

- 167 Our Base Case DCF valuation assumes SILK's pro-forma total revenue (which comprises total trading sales and franchise revenue) will increase at a compound annual growth rate of some 5.6% to reach some \$140 million by FY28, with the annual rate of growth moderating over the forecast period. This reflects, inter alia:
- higher assumed revenue growth initially (i.e. during FY24 and FY25) from SILK's existing clinic network, underpinned by the maturing of the existing clinic network as Infant and Intermediate clinics in operation continue to ramp up
 - an allowance for the estimated contribution from new clinic openings assuming a ramp up profile consistent with historical experience. Our Base Case DCF valuation assumes a total of 10 new clinics will be added to SILK's clinic network by FY28⁴⁶, taking the total clinic network to 155 by the end of the forecast period.

Operating expenses

- 168 The operating expenses associated with SILK's operations primarily relate to the following items:
- cost of goods sold** – comprises the purchases of consumables, products and cosmetic injectable materials in addition to other direct costs associated with SILK's corporate and JV75 clinic operations in addition to wholesale distribution activities to the broader JV50 and traditional franchise clinic network

⁴⁴ Also calculated on an ungeared basis.

⁴⁵ The adopted forecast period has been chosen to allow for, inter alia, maturing of the existing clinic network.

⁴⁶ Given the inherent uncertainty surrounding the specific ownership structure of new clinics (i.e. corporate, JV75, JV50 and traditional franchise) we have modelled new clinic additions using the average contribution from each ownership structure.

- (b) **employee costs** – represent the salaries, wages, incentives and other employment related costs of staff in the head office, corporate and JV75 clinics. At the clinic level, employee expenses relate to nurse wages and clinic staff costs. While clinic staff costs are semi-fixed in nature, injector nurse remuneration tends to be largely variable (i.e. commissions per injectables procedure performed) based on clinic injectable revenues
- (c) **occupancy expenses** – relate to lease rental charges for premises as well as utility and other outgoings, which are relatively fixed in nature
- (d) **marketing expenses** – represents marketing, advertising and promotion expenditure incurred, noting SILK charges all clinics (regardless of ownership) a marketing levy of between 3% and 4% of cash sales
- (e) **other expenses** – which comprise bank and merchant fees, insurance, audit, accounting and other professional fees, IT subscriptions and fees, and office expenses. Merchant fees are variable in nature (based on clinic sales) while other overhead expenses tend to be semi-fixed in nature.

Underlying EBITDA margins

- 169 For the purposes of our DCF valuation, we have forecast EBITDA based on an assumed underlying EBITDA margin, as opposed to separately modelling the various operating expenses. We consider this to be reasonable, noting:
- (a) individually modelling the various cost items does not take into account the operational flexibility available to SILK management to react to changes in the market conditions and cost environment in which SILK operates. It also increases the potential estimation error due to the greater number of assumptions required and cumulative impacts of these assumptions (particularly in the absence of any long term management projections for the business)
 - (b) whilst SILK's business model may exhibit some degree of operating leverage, the underlying EBITDA margins observed in FY22 and FY23 remained broadly consistent notwithstanding the significant growth in revenue over this period
 - (c) the underlying EBITDA margins ultimately reflected in the DCF valuation should reflect reasonably achievable margins given expected market conditions and SILK's competitive positioning.
- 170 Having regard to the recent underlying operating results of SILK⁴⁷ and current cost pressures, we have adopted an underlying EBITDA margin (pre AASB-16) equal to 19.0% of total revenue in FY24 which is assumed to increase to 21.0% by the end of the forecast period, reflecting inter alia, some increased scale benefits.

Capital expenditure

- 171 Capital expenditure in FY24 relates to plant and equipment additions, clinic refurbishments, Eden clinic rebranding, relocations of a few existing clinics and investment in technology infrastructure systems (e.g. consolidated point of sale system, proprietary scripting system and data warehouse system). The total quantum of this capital expenditure is broadly comparable to the level of expenditure incurred in recent periods.

⁴⁷ A historical summary of SILK's underlying EBITDA from FY20 to FY23 is set out in Section III.

- 172 Capital expenditure beyond FY24 (excluding new clinic additions) has been estimated at 3.0% of total revenue having regard to SILK's historical levels of capital expenditure and cost of fixed assets employed across its existing clinic network.
- 173 Capital expenditure for new clinic additions has been allowed for (on a per clinic basis) at levels consistent with recent experience.

Other key assumptions

- 174 A summary of other key assumptions which underpin our cash flow projections over the forecast period is set out below:

Other key assumptions (Base Case)	
Reduction in public company costs	<ul style="list-style-type: none"> A reduction in public company costs of around \$1.0 million to \$1.5 million per annum has been adopted (with an allowance for inflation over the forecast period), which reflects the savings that any potential purchaser of the business could obtain through delisting the company from the ASX
Depreciation	<ul style="list-style-type: none"> Has been projected based on the level of reported depreciation of SILK's existing fixed assets and a similar assumed useful life for future additions
Working capital	<ul style="list-style-type: none"> SILK operates with the benefit of negative working capital which as at 30 June 2023 was broadly equal to (17.0)% of total revenue We have allowed for additional net working capital benefits over the forecast period assuming similar net working capital levels as a percentage of total revenue
Taxation	<ul style="list-style-type: none"> We have allowed for taxation at the current company tax rate of 30%

Discount rate

- 175 We have applied a (mid-point) discount rate of 12.5% per annum (after tax) which reflects:
- a risk-free rate of 4.5% per annum consistent with recent yields on long term Australian Government bond yields
 - a market risk premium (MRP) of 6.5% per annum, reflecting our view on the additional return above the risk-free rate sought by equity investors in Australia in the current market conditions
 - a beta of 1.2 to 1.3 which exceeds recent beta estimates for the healthcare sector and the market generally, reflecting in particular that the products and services provided by SILK are generally considered non-essential and are purchased with discretionary income. However, SILK's products and services appear to have become more embedded in consumers' personal care routines and can be considered less discretionary than other cosmetic and beauty products (such as lipstick and perfumes)
 - an additional equity risk premium of 1% to recognise the risk associated with achievement of the forecast growth in revenues reflected in our adopted cash flows which includes an allowance for, inter alia, further clinic openings
 - a cost of debt of 8.0% per annum, which reflects a borrowing margin of 3.5% over the adopted risk-free rate
 - the prevailing corporate tax rate of 30%

- (g) an assumption that over the long term the business operations of SILK are financed by a combination of 85% equity and 15% debt which exceeds the current funding mix of the business (noting SILK has historically had minimal net debt).

176 Based on the above our adopted discount rate is derived as follows:

SILK – adopted discount rate		
	Low %	High %
Risk-free rate	4.5	4.5
MRP	6.5	6.5
Beta	1.2	1.3
Cost of equity	12.3	13.0
Additional equity risk premium	1.0	1.0
Cost of equity including additional equity risk premium	13.3	14.0
Cost of debt pre-tax	8.0	8.0
Cost of debt after tax	5.6	5.6
Proportion of equity funding	85.0	85.0
Proportion of debt funding	15.0	15.0
Weighted average cost of capital (WACC)	12.1	12.7
WACC – adopted	12.5	

Terminal value

177 We have estimated the terminal value of the SILK business as at 30 June 2028 based on the free cash flow projected in FY28. Post FY28, growth of 2.5% per annum has been assumed based on our review of, inter alia:

- (a) the projected scale of operations as at the terminal period, and the potential for growth beyond that date. In this regard we note that the Australian non-invasive aesthetics industry is relatively mature and organic growth opportunities are increasingly limited
- (b) long term inflation targets of between 2% to 3%
- (c) the perpetuity growth rates adopted by SILK for impairment testing purposes as at 30 June 2023.

178 For terminal value purposes we have not assumed any growth from new clinic additions in perpetuity. Accordingly, we have adopted a level of capital expenditure which represents the estimated maintenance capital expenditure required to maintain the existing clinic network as at the terminal period (e.g. periodic plant and equipment replacements, leasehold refurbishments etc.) at some 3.0% of total revenue. We have also not assumed any perpetual benefits associated with SILK's negative net working capital position.

179 The terminal value of the SILK business as at 30 June 2028 represents 6.6 times projected FY28 Underlying EBITDA on a pre AASB-16 basis (which we consider reasonable).

Sensitivity analysis

180 There are inherent qualifications that apply to cash flow projections on which DCF valuations are based. It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.

181 In assessing our valuation range, we have therefore considered the sensitivity of the value outcome to changes in the key assumptions, as shown below:

(a) differences in the terminal growth rate and the WACC:

Sensitivity analysis		Terminal growth rate				
		2.0%	2.25%	2.5%	2.75%	3.0%
WACC	13.00%	161	164	167	169	172
	12.75%	165	168	171	174	177
	12.50%	169	172	175	178	181
	12.25%	173	176	179	183	186
	12.00%	177	180	184	187	191

(b) differences in the revenue growth rate and the EBITDA margin:

Sensitivity analysis		Annual revenue growth (+/-)				
		(2.0%)	(1.0%)	-	1.0%	2.0%
EBITDA margin (+/-)	(2.0%)	146	151	156	162	168
	(1.0%)	154	160	166	171	178
	-	163	169	175	181	187
	1.0%	171	178	184	190	197
	2.0%	180	186	193	200	207

(c) differences in the assumed level of capital expenditure and number of new clinic additions:

Sensitivity analysis		Capital expenditure / total revenue ⁽¹⁾				
		4.0%	3.5%	3.0%	2.5%	2.0%
New clinics per annum	-	155	160	165	170	175
	1	159	165	170	175	180
	2	164	169	175	180	185
	3	169	174	180	185	191
	4	174	179	185	190	196

Note:

1 For FY25 and beyond.

182 As indicated above, the NPV outcomes are particularly sensitive to the assumed revenue growth rate and underlying EBITDA margins. In our opinion, a higher assumed rate of revenue growth and/or EBITDA margins would warrant the adoption of a higher discount rate, and vice versa if lower assumptions were adopted (i.e. we consider the extremities of the abovementioned sensitivity analysis to be less credible).

183 Having regard to the above, the DCF methodology implies a value for the SILK business of around \$165 million to \$185 million.

Enterprise value

184 Based on the above, we set out below a summary of our valuation ranges under both methodologies, and our assessed valuation range for the SILK business (noting we have placed greater weighting on our primary methodology being the capitalisation of EBITDA approach):

SILK – assessed enterprise value		
	Low \$m	High \$m
Capitalisation of EBITDA method	170.0	190.0
DCF method	165.0	185.0
Adopted valuation range	170.0	190.0

Net debt

185 As at 30 June 2023, SILK had net debt of approximately \$5.3 million calculated as follows:

SILK – net debt	
	30 Jun 23 \$m
Cash and cash equivalents	20.8
Associate shareholder loan receivables	5.2 ⁽¹⁾
Borrowings	(30.0)
Deferred consideration on Eden acquisition	(1.2)
Net debt	(5.3)

Note:

1 Net of a \$0.3 million allowance for expected credit losses.

Fully diluted shares on issue

186 As at the date of this report, SILK had 53.1 million fully paid ordinary shares on issue. In addition, SILK had 0.6 million performance rights granted under the Company's EIP. The performance rights vest subject to the achievement of specified performance hurdles⁴⁸. However, in the event of a takeover or other control event the SILK Board has the discretion to waive the performance hurdles. Accordingly, when valuing 100% of the shares in SILK, in our opinion, it is appropriate to assume that additional shares in respect of the outstanding performance rights will be issued. For valuation purposes, we have therefore adopted fully diluted shares on issue of 53.8 million.

⁴⁸ Details of these performance hurdles are set out in Section III.

Value of SILK

187 On this basis, the value of 100% of SILK on a controlling interest basis is as follows:

Value of SILK			
	Paragraph	Low \$m	High \$m
Enterprise value	184	170.0	190.0
Less net debt	185	(5.3)	(5.3)
Equity value – controlling interest basis		164.7	184.7
Fully diluted shares on issue (million)	186	53.8	53.8
Value per share – controlling interest basis (\$)		3.06	3.44

Comparison to pre-announcement share trading range

188 We have considered the listed market price of SILK shares up to 19 April 2023 (being the last day of trading prior to the announcement of the API Indicative Proposal⁴⁹), adjusted for a premium for control.

189 The volume weighted average share prices for SILK in the period prior to the announcement of the API Indicative Proposal are set out below:

SILK – “undisturbed” share trading			
Period to 19 April 2023 ⁽¹⁾	Volume traded 000s	Value traded \$000	VWAP \$
Closing price	na	na	2.42
5 trading days	137	315	2.30
1 month	865	1,788	2.07
3 months	4,348	8,167	1.88

Note:

1 Being the last day of trading prior to the announcement of the API Indicative Proposal.

na – not applicable.

Source: FactSet.

190 We note that since the receipt of the API Indicative Proposal on 19 April 2023 up to 31 August 2023 the ASX All Ordinaries Index and the S&P/ASX Small Ordinaries Health Care Index have declined by 0.7% and 2.7% respectively.

191 Having regard to the above (and in particular the increase in the SILK share price leading up to the announcement of the API Indicative Proposal), we have adopted an “undisturbed” share price for SILK of \$2.10 to \$2.30 for the purposes of our comparison.

192 Empirical research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover, and after adjusting the pre-bid market price for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover).

⁴⁹ The API Indicative Proposal was announced after market close on 19 April 2023.

- 193 Adding a 30% to 35% premium for control to these share prices would therefore result in a theoretical "control" value of \$2.73 to \$3.10 per SILK share. Whilst our assessed value of SILK shares (on a 100% controlling interest basis) lies above this theoretical range, we consider our valuation range to be appropriate, noting that:
- (a) smaller companies (such as SILK and those represented in the S&P/ASX Small Ordinaries Healthcare Index⁵⁰) have generally experienced a greater decline in share prices relative to the broader market since early to mid-2022
 - (b) it is not uncommon for control premiums to exceed the average premium implied by empirical research, particularly for smaller companies such as SILK that are not comprehensively covered by investment analysts and do not form part of any ASX Index (which naturally limits the level of institutional investor interest).

⁵⁰ Which includes healthcare companies included in the S&P/ASX 300, but not in the S&P/ASX 100.

VI Evaluation of the Scheme

194 In our opinion, the Scheme is fair and reasonable and in the best interests of SILK shareholders in the absence of a superior proposal. We have formed this opinion for the following reasons.

Assessment of fairness

195 As set out in Section V we have assessed the value of SILK on a 100% controlling interest basis at between \$3.06 and \$3.44 per share.

Value of Scheme Consideration

196 If the Scheme is approved and implemented, SILK shareholders will receive \$3.35 cash for each SILK share they hold on the Scheme Record Date⁵¹, less the cash amount of any Special Dividend which SILK announces before the Scheme Record Date.

197 Pursuant to the SID, SILK may pay a Special Dividend of up to \$0.10 per SILK share. Should a Special Dividend of \$0.10 per SILK share be paid the Scheme Consideration payable by API under the Scheme will be reduced to \$3.25 per SILK share.

198 SILK shareholders on the Scheme Record Date and the record date for the Special Dividend will therefore receive a total of \$3.35 cash per SILK share if the Scheme is implemented regardless of whether a Special Dividend is paid. Accordingly, we have assessed the Scheme Consideration at \$3.35 per share. However, due to the benefit of franking credits we note that the value of the Scheme Consideration (including the Special Dividend) to some Australian resident shareholders may be greater than \$3.35 per share if a Special Dividend is paid.

Fairness

199 Pursuant to RG 111 the Scheme is “fair” if the value of the consideration is equal to, or greater than the value of the securities the subject of the scheme. This comparison is shown below:

Comparison of Scheme Consideration to value of SILK			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Scheme Consideration	3.35	3.35	3.35
Value of 100% of SILK	3.06	3.44	3.25
Extent to which the Scheme Consideration exceeds (or is less than) the value of SILK	0.29	(0.09)	0.10

200 As the Scheme Consideration lies within our assessed valuation range for SILK shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is “fair” to SILK shareholders when assessed in accordance with the guidelines set out in RG 111.

⁵¹ The Scheme Record Date is presently expected to be 7:00pm on the fifth business day after the Scheme becomes effective.

Assessment of “reasonableness” and “in the best interests”

- 201 Pursuant to RG 111, a transaction is reasonable if it is fair. Accordingly, in our opinion, the Scheme is also “reasonable”.
- 202 There is no legal definition of the expression “in the best interests”. However, RG 111 notes that if an expert concludes that a scheme is “fair and reasonable”, or “not fair but reasonable”, then the expert will also be able to conclude that the scheme is “in the best interests” of members of the company.
- 203 In our experience, if a transaction is “fair” and “reasonable” under RG 111 it will also be “in the best interests” of shareholders. This is because if the consideration payable pursuant to a scheme is fair, shareholders are implicitly receiving consideration for their shares which is consistent with the full underlying value of those shares.
- 204 We therefore consider that the Scheme is also “in the best interests” of SILK shareholders in the absence of a superior proposal.

Other considerations

- 205 In assessing whether the Scheme is reasonable and in the best interests of SILK shareholders LEA has also considered, in particular:
- (a) the extent to which a control premium is being paid to SILK shareholders
 - (b) the extent to which SILK shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (c) the listed market price of the SILK shares, both prior to and subsequent to the announcement of the API Indicative Proposal
 - (d) the likely market price of SILK shares if the proposed Scheme is not approved
 - (e) the value of SILK to an alternative offeror and the likelihood of a higher alternative offer being made for SILK prior to the date of the Scheme meeting
 - (f) the advantages and disadvantages of the Scheme from the perspective of SILK shareholders
 - (g) other qualitative and strategic issues associated with the Scheme.

- 206 These issues are discussed in detail below.

Extent to which a control premium is being paid

- 207 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares⁵² three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price)⁵³. This premium range reflects the fact that:

⁵² After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

⁵³ LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2022. LEA's study covered around 500

- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
- (b) the controlling shareholder can dispose of surplus assets and redeploy the proceeds
- (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
- (d) a controlling shareholder has the potential to increase the value of the entity being acquired through synergies and/or rationalisation savings.

- 208 We have calculated the premium implied by the Scheme Consideration by reference to the market prices of SILK shares (as traded on the ASX) for periods up to and including 19 April 2023 (being the trading day prior to the announcement of the API Indicative Proposal).

Implied offer premium relative to SILK share prices prior to the API Indicative Proposal		
	SILK share price \$	Implied offer premium %
Scheme Consideration (including Special Dividend)	3.35	
Closing share price on 19 April 2023 ⁽¹⁾	2.42	38.4
5 day VWAP to 19 April 2023	2.30	45.7
1 month VWAP to 19 April 2023	2.07	61.8
3 month VWAP to 19 April 2023	1.88	78.2

Note:

- 1 Being the last trading day prior to the announcement the API Indicative Proposal.

- 209 Based on the one and three month VWAPs, the Scheme Consideration provides SILK shareholders with an implied premium that is above observed premiums generally paid in comparable circumstances. However, adopting the closing share price prior to the announcement of API's Indicative Proposal, the premium is more consistent with generally observed premiums.
- 210 As noted above, the Scheme Consideration is also consistent with our valuation of SILK shares, and accordingly, in our view, SILK shareholders are being compensated for the fact that 100% of control of SILK will pass to API if the Scheme is approved.

Extent to which SILK shareholders are being paid a share of synergies

- 211 If the Scheme is approved by SILK shareholders, API will acquire a 100% interest in SILK. As a result, listed company costs will be eliminated with associated cost savings to the merged group. Such cost savings are inherent when listed companies are acquired and are typically one of the reasons why acquirers pay a control premium to target company shareholders.

transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

- 212 In terms of potential operational synergies, API (which owns and operates Clear Skincare Clinics) is also a key participant in the non-surgical aesthetics sector in Australia and therefore provides a range of services which are similar and/or complementary to those of SILK. The potential therefore exists for operational synergies between the two business operations (which may be significant). However, we understand that this potential was not a major consideration in negotiations between the parties and to date has not been the subject of detailed review from both a qualitative and quantitative perspective⁵⁴.
- 213 Further, as noted in Section V, our assessed value of SILK (on a 100% controlling interest basis) incorporates an allowance for the synergy benefits associated with public company and other similar cost savings. Accordingly, as the Scheme Consideration sits above the midpoint of our assessed value range, we are of the view that SILK shareholders are being paid an appropriate share of the value of any synergy benefits which may potentially arise from the acquisition.

Share prices subsequent to the announcement of the API Indicative Proposal

- 214 Shareholders should note that SILK shares have traded on the ASX in the range of \$2.78 to \$3.47 per share in the period since the API Indicative Proposal was received up to when the Scheme was announced on 31 August 2023 as shown below:

SILK share price post 19 April 2023			
	Low	High	VWAP
	\$ per share	\$ per share	\$ per share
20 April 2023 to 23 May 2023 ⁽¹⁾	2.99	3.40	3.06
24 May 2023 to 26 June 2023 ⁽²⁾	2.78	3.47	3.12
27 June 2023 to 31 August 2023 ⁽³⁾	3.25	3.34	3.31

Note:

- 1 Post the date of the announcement of the API Indicative Proposal and up to the date of the announcement of the EC Indicative Proposal.
- 2 Post the date of the announcement of the EC Indicative Proposal and up to the date of the announcement of the API Binding Offer.
- 3 Post the date of the announcement of the API Binding Offer.

- 215 Since announcement of the Scheme, the SILK share price has traded within a relatively narrow range (of \$3.25 to \$3.34 per share). In our view, the trading suggests that in the absence of a superior proposal the consensus market view is that the Scheme is likely to be successful.

Likely price of SILK shares if the Scheme is not implemented

- 216 If the Scheme is not implemented we expect that, at least in the short term, SILK shares will trade at a significant discount to our valuation and the Scheme Consideration due to the difference between the value of SILK shares on a portfolio basis and their value on a 100% takeover basis. In this regard we note that SILK shares last traded at \$2.42 per share on 19 April 2023 (being the last trading day prior to the announcement of the API Indicative Proposal).

⁵⁴ Further, as noted in RG 111, any special value of the "target" to a particular bidder (e.g. synergies that are not available to other bidders) should not be taken into account for the purposes of assessing fairness.

- 217 Notwithstanding, if the Scheme is not implemented, those SILK shareholders who wish to sell their SILK shares are therefore likely, at least in the short term, to realise a significantly lower price for their shares than will be payable under the Scheme.

Likelihood of an alternative offer

- 218 In considering the likelihood of an alternative offer, we set out below a brief timeline of events leading up to the API Binding Offer.
- 219 On 19 April 2023 SILK received the API Indicative Proposal, a non-binding, indicative and conditional proposal from API to acquire 100% of the shares in SILK, by way of a scheme of arrangement, for cash consideration of \$3.15 per share.
- 220 Subsequently, on 23 May 2023 SILK announced that it had received the EC Indicative Proposal, a competing, non-binding and indicative proposal from EC at an offer price of \$3.35 per share, subject to (inter alia) confirmatory due diligence. At that time, the EC Indicative Proposal was considered superior to the initial API Indicative Proposal.
- 221 On 30 May 2023, API notified SILK that it had not decided to exercise its matching rights to provide an equivalent or superior proposal to the EC Indicative Proposal before the expiration of its Process Deed with SILK on 1 June 2023.
- 222 SILK announced on 2 June 2023 the Board's intention to unanimously recommend the EC Indicative Proposal subject to entering into a binding scheme implementation agreement on terms no less favourable than the EC Indicative Proposal and no superior proposal being received.
- 223 On 26 June 2023, SILK and API entered into the SID based on the API Binding Offer. We understand that after careful consideration and having received advice from its legal and financial advisers, the Board of SILK determined the API Binding Offer to be a superior proposal to the EC Indicative Proposal. The Board of SILK took into consideration a range of factors in forming this opinion, including the certainty provided by the API Binding Offer and the ability to execute a binding SID with API on terms acceptable to the SILK Board.
- 224 Whilst there has effectively been (and remains) an opportunity for third parties contemplating an acquisition of SILK to table a proposal, SILK shareholders should also note:
- (a) the exclusivity obligations (and break fee of \$1.8 million⁵⁵) on SILK pursuant to the SID, which are summarised in Section I of this report and discussed in further detail in the Scheme Booklet
 - (b) the Scheme represents the outcome of the process of assessment of the proposals from EC Healthcare and API, with the Board of SILK having regard to a range of factors, including the certainty provided by the Scheme (from a funding, execution and timing perspective) and the ability to execute the SID with API on terms acceptable to the SILK Board
 - (c) the SILK business is similar and complementary to API's Clear Skincare Clinics business and the potential exists for operational synergies between the two businesses.

⁵⁵ \$1,779,559.43.

225 Although it is possible that an alternative offer may emerge, in our opinion, the factors set out above diminish the likelihood of this outcome.

Summary of opinion on the Scheme

226 We summarise below the likely advantages and disadvantages for SILK shareholders if the Scheme proceeds.

Advantages

227 In our opinion, the Scheme has the following benefits for SILK shareholders:

- (a) the Scheme Consideration of \$3.35 cash per share lies within our assessed value range for SILK shares on a 100% controlling interest basis
- (b) the Scheme Consideration represents a significant premium to the recent market prices of SILK shares prior to the announcement of the API Indicative Proposal on 19 April 2023
- (c) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, SILK shares are likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings.

Disadvantages

228 SILK shareholders should note that if the Scheme is implemented they will no longer hold an interest in SILK. SILK shareholders will therefore not participate in any future value created by the Company over and above that reflected in the Scheme Consideration.

229 However, as our assessed value of SILK shares is consistent with the Scheme Consideration, in our opinion, the present value of SILK's future potential is reflected in the Scheme Consideration.

Conclusion

230 Given the above analysis, we consider the advantages of the Scheme to outweigh the disadvantages. Accordingly, in our view, the acquisition of SILK shares under the Scheme is fair and reasonable to and therefore in the best interests of SILK shareholders in the absence of a superior proposal.

A Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532, which authorises it to provide a broad range of financial services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

Financial Services Guide

- 3 LEA has been engaged by SILK to provide general financial product advice in the form of an IER in relation to the Scheme. The *Corporations Act 2001 (Cth)* (Corporations Act) requires that LEA include this Financial Services Guide (FSG) with our IER.
- 4 This FSG is designed to assist retail clients in their use of the general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

General financial product advice

- 5 The IER contains general financial product advice only and has been prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 6 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$150,000 plus GST.
- 7 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
- 8 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.



Appendix A

- 9 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 10 If you have a complaint, please raise it with us first. LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

- 11 We will endeavour to satisfactorily resolve your complaint in a timely manner. Please note that LEA is only responsible for the preparation of this IER. Complaints or questions about the Scheme Booklet should not be directed toward LEA as it is not responsible for the preparation of this document.
- 12 If we are not able to resolve your complaint to your satisfaction within 30 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Compensation arrangements

- 13 LEA has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of the Corporations Act.

Appendix B

B Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Ms Julie Planinic and Mr Jorge Resende, who are each authorised representatives of LEA. Ms Planinic and Mr Resende have over 24 years and 21 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Directors of SILK to accompany the Scheme Booklet to be sent to SILK shareholders. It is not intended that this report serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of SILK shareholders.
- 4 LEA expressly disclaims any liability to any SILK shareholder who relies or purports to rely on our report for any other purpose and to any other party who relies or purports to rely on our report for any purpose whatsoever.

Interests

- 5 At the date of this report, neither LEA, Ms Planinic nor Mr Resende have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 6 LEA has not had within the previous two years, any business or professional relationship with SILK or API or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.
- 7 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.
- 8 LEA had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Sources of information

- 9 In preparing this report we have been provided with and considered the following sources of information:
 - (a) publicly available information:
 - (i) Scheme Booklet and SID

Appendix B

- (ii) annual reports for SILK for FY20, FY21, FY22 and FY23 (and associated results presentations)
- (iii) half year reports for SILK for the six months ended 31 December 2021 and 2022 (and associated results presentations)
- (iv) ASX announcements, press releases, media and analyst presentations and other public announcement by SILK including information available on its website and recent press articles
- (v) analyst reports regarding SILK
- (vi) company announcements, annual reports, analyst reports and press releases relating to comparable companies and comparable transactions
- (vii) information sourced from FactSet, Bloomberg and Connect4
- (b) publicly available industry sources such as:
 - (i) data sourced from the ABS, RBA and the Westpac-Melbourne Institute Consumer Sentiment Index
 - (ii) American Society of Plastic Surgeons, *Recession Cuts Many, Not All Plastic Surgery Procedures*, 25 March 2009
 - (iii) Australian Health Practitioner Regulation Agency, *Guidelines for registered medical practitioners who perform cosmetic surgery and procedures*, 21 April 2023
 - (iv) Tasmanian Government, *Radiation Protection Regulations 2016*, updated 1 July 2023
 - (v) Queensland Government, *Radiation Safety Regulations 2021*, updated 1 July 2022.
- (c) non-public information:
 - (i) SILK Board papers
 - (ii) SILK FY24 budget
 - (iii) other confidential documents, presentations and workpapers
 - (iv) discussions with, and information obtained from, senior management of SILK.

Indemnification

- 10 As a condition of LEA's agreement to prepare this report, SILK agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of SILK which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 11 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

C Valuation methodology

Valuation approaches

- 1 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, schemes of arrangement, takeovers, share buy-backs, selective capital reductions and prospectuses. These include:
 - (a) the DCF methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 2 Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 3 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 4 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, earnings before interest, tax and amortisation (EBITA), EBIT or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.



Appendix C

- 5 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

D Listed company descriptions**Integral Diagnostics**

- 1 Integral Diagnostics is an Australian healthcare services company that specialises in the provision of diagnostic imaging services to general practitioners, medical specialists and allied health professionals and their patients across Australia and NZ. As at 30 June 2023, Integral Diagnostics operated a network of 91 sites comprising 37 MRI machines, 165 employed radiologists and a total workforce of 1,843 employees.

Australian Clinical Labs

- 2 Australian Clinical Labs is one of the largest private hospital pathology businesses in Australia. The company operates a network of 75 laboratories which perform a range of pathology tests for a variety of clients including doctors, specialists, patients, hospitals and corporate clients. The company has a network of over 1,300 accredited collection centres and employs over 3,100 staff including over 85 accredited pathologists and 500 scientists.

Monash IVF Group Limited

- 3 Monash IVF Group is leading fertility research and treatment company that primarily provides assisted reproductive services, ultrasound and other related services in Australia in addition to some assisted reproductive services in Malaysia and Singapore. The company operates across a network of 29 fertility clinics, 17 specialist women's imaging clinics, four service centres, two specialised diagnostic laboratories and seven day hospitals.

Capitol Health Limited

- 4 Capitol Health provides diagnostic imaging and related services to the healthcare market in Australia. The company owns and operates 66 practices throughout VIC, Tasmania, Western Australia and SA that provide a wide range of diagnostic imaging services, with revenue primarily generated through x-ray, ultrasound, CT and MRI services.

Pacific Smiles Group Limited

- 5 Pacific Smiles Group operates over 138 dental centres around Australia at which independent dentists practice and provide clinical treatments and services. The company provides general dentistry services, dental treatments and advanced dentistry including dental implants. It also provides specialist dentistry comprising orthodontics, prosthodontics, endodontics and periodontics, as well as other treatments under general anaesthetic and intravenous sedation.

Appendix E

E Transaction evidence

- 1 The following table sets out the implied EBITDA multiples for recent transactions of Australian and NZ allied health companies as well as other healthcare services companies with a transaction value between \$20 million and \$1 billion:

Other healthcare transaction evidence					
Date ⁽¹⁾	Target	Acquirer	Enterprise value ⁽²⁾ A\$m	EBITDA multiple Historical x	Forecast x
Allied Health Services⁽³⁾					
Aug 23	Healthia ⁽⁴⁾	Pacific Equity Partners	397.2	10.4	9.2
Dec 22	Everyday Independence	APM Human Services	52.5	na	6.0
Dec 21	Lifecare ⁽²⁾	APM Human Services	87.0	7.0	na
Sep 21	Back in Motion	Healthia	92.6	7.5	na
Oct 20	The Optical Company	Healthia	43.0	7.6	na
Aug 18	Zenitas Healthcare	Adamantem Capital	122.1	12.0	na
Diagnostic imaging companies⁽⁵⁾					
Aug 22	Future Medical Imaging Group	Capitol Health	56.1	8.5	na
May 22	Horizon Radiology	Integral Diagnostics	28.8	na	8.5
May 22	Exact Radiology	Integral Diagnostics	38.4	7.3	na
Feb 22	Peloton Radiology	Integral Diagnostics	68.5	na	8.6
Sep 21	The X-Ray Group	Integral Diagnostics	41.8	na	8.0
Jun 20	Ascot Radiology	Integral Diagnostics	48.0	na	8.6
Aug 19	Imaging Queensland	Integral Diagnostics	108.0	8.7	8.4
May 18	Specialist Radiology Group	Integral Diagnostics	97.7	na	8.1
Dec 17	Radiology Tasmania	Capitol Health	25.2	na	7.5
Jun 17	NSW radiology assets	I-MED Radiology	81.5	8.5	na
Apr 15	Two Sydney radiology clinics	Capitol Health	30.0	8.0	na
Mar 15	Sydney Ultrasound	Monash IVF	30.1	7.8	na
Jan 15	Imaging @ Olympic Park	Capitol Health	25.0	7.6	na
Other healthcare services companies⁽⁶⁾					
Nov 21	Medlab Pathology	Australian Clinic Labs	67.5	6.4	na
Aug 21	1300smiles	Abano Bidco	165.2	13.5	na
Apr 21	SunDoctors	Australian Clinical Labs	74.8	na	8.6
Jun 20	Healius Primary Care	BGH Capital	500.0	8.1	na
Nov 19	Abano Healthcare	Adams NZ	272.2	8.7	8.4
Aug 17	Healthscope's medical centres	Fullerton Health	55.0	6.3	na
Mar 17	Illawarra Healthcare	Healthe Care	53.0	na	11.0
Feb 17	Cura Day Hospitals Group ⁽²⁾	Fresenius	425.0	13.7	na
Oct 16	Pulse Health	Healthe Care	153.3	nm	8.6
Dec 15	Healthwoods and Hobson	Pulse Health	21.5	8.4	na
Dec 15	Healthe Care	Luye Medical	938.0	13.4	na
Nov 15	Hunter Valley Private Hospital	Healthscope	71.6	12.8	11.0
Aug 15	Vision Eye Institute	Jangho Group	205.4	7.8	7.9
Jun 15	Healthscope's Aus. pathology business	Crescent Capital	105.0	11.3	na
Apr 15	The Hills Clinic	Partners	27.7	8.5	8.5

Appendix E

Note:

- 1 Date of acquisition announcement.
- 2 The EV for the Lifecare and Cura Day Hospitals transactions is shown on a 100% basis, noting these transactions related to the acquisition of an 81% and 70% interest respectively. All other transactions relate to the acquisition of a 100% interest.
- 3 Allied Health generally refers to services provided by health practitioners (other than doctors and dentists) with specialised expertise in the prevention, diagnosing and treatment of a range of conditions and illnesses. The Allied Health transactions generally relate to companies engaged in the provision of physiotherapy, podiatry, optometry and other allied health services.
- 4 Proposed transaction announced on 31 August 2023, which had not completed as at the date of our report.
- 5 These companies provided a range of diagnostic imaging including x-ray, ultrasound and other services.
- 6 These transactions relate to a variety of other healthcare services companies which operated dental practices, medical centres, hospitals and day surgeries, pathology clinics and other health facilities.

Source: LEA analysis using data from ASX announcements, media articles, analyst reports and company annual reports.

na – not available. nm – not meaningful.

F Glossary

Term	Meaning
AASB 16	Australian Accounting Standard AASB 16 – Leases
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
AFCA	Australian Financial Complaints Authority
API	Australian Pharmaceutical Industries Pty Ltd
API Binding Offer	API's offer to acquire all of the issued shares in SILK, by way of a scheme of arrangement for cash consideration of \$3.35 cash per share
API Indicative Proposal	API's non-binding, indicative proposal to acquire 100% of the shares in SILK by way of a scheme of arrangement for \$3.15 cash per share
ASC	Australian Skin Clinics
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Corporations Regulations	<i>Corporations Regulations 2001</i>
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax depreciation and amortisation
EC	EC Healthcare
EC Indicative Proposal	EC's competing, non-binding and indicative proposal from EC Healthcare to acquire 100% of the shares in SILK for \$3.35 cash per share
Eden	Eden Laser Clinics
EIP	Equity incentive plan
EV	Enterprise value
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
IPO	Initial public offering
JV	Joint venture
JV50	JV clinics where SILK's ownership interest is less than or equal to 50%
JV75	JV clinics where SILK's ownership interest is more than 50%
LEA	LonerGAN Edwards & Associates Limited
LFL	Like for like
LTI	Long term incentive
MRP	Market risk premium
NPV	Net present value
NSW	New South Wales
NZ	New Zealand
NZCC	New Zealand Commerce Commission
QLD	Queensland
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
ROU	Right of use
SA	South Australia
Scheme	API acquiring 100% of the shares of SILK by way of a scheme of arrangement
Scheme Consideration	\$3.35 cash per share
SID	Scheme Implementation Deed dated 26 June 2023
SILK / the Company	Silk Laser Australia Limited

Annexure B

Scheme of Arrangement

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Scheme of arrangement

SILK Laser Australia Limited

Each person registered as a holder of SLA Shares as at the Scheme Record Date

SYDNEY | MELBOURNE | PERTH

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Contents

Page

1	Defined terms and interpretation	2
2	Preliminary matters	2
3	Conditions	3
4	Implementation of this Scheme	4
5	Scheme Consideration	5
6	Dealings in SLA Shares	8
7	Quotation of SLA Shares	9
8	General Scheme provisions	10
9	General	12
	Schedule 1 Dictionary	14

Date: [•] 2023

This scheme of arrangement is made under section 411 of the Corporations Act.

Parties

- 1 **SILK Laser Australia Limited** (ACN 645 400 399) of 1/137 The Parade, Norwood SA 5067 (**SLA**)
- 2 Each SLA Shareholder registered as a holder of fully paid SLA Shares as at the Scheme Record Date (**Scheme Shareholders**)

The parties agree

1 Defined terms and interpretation

1.1 Defined terms

A term or expression which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this Scheme.

2 Preliminary matters

2.1 SLA

- (a) SLA is an Australian public company limited by shares and SLA has been admitted to the official list of ASX.
- (b) As at the date of the Implementation Deed, 53,121,177 SLA Shares were on issue which are officially quoted for trading on ASX.

2.2 API

API is an Australian proprietary company limited by shares.

2.3 If Scheme becomes Effective

- (a) If this Scheme becomes Effective:
 - (i) in consideration of the transfer of the Scheme Shares to API, API must pay or procure the payment of the Scheme Consideration to SLA on behalf of the Scheme Shareholders in accordance with this Scheme and the Deed Poll;
 - (ii) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to API on the Implementation Date; and
 - (iii) SLA will enter the name of API in the SLA Register in respect of all the Scheme Shares transferred to API in accordance with the terms of this Scheme.

- (b) SLA and API have entered into the Implementation Deed in respect of (among other things) the implementation of this Scheme.
- (c) This Scheme attributes certain actions to API but does not itself impose any obligations on API to perform those actions, as API is not a party to this Scheme. By executing the Deed Poll, API has agreed to perform the actions attributed to it under this Scheme, including the payment or procuring the payment of the Scheme Consideration to the Scheme Shareholders subject to the terms and conditions of this Scheme.

3 Conditions

3.1 Conditions precedent

This Scheme is conditional on and will not become Effective until and unless the following conditions precedent are satisfied:

- (a) all the conditions in clause 3.1 of the Implementation Deed (other than the condition in the Implementation Deed relating to Court approval of this Scheme) are satisfied or waived in accordance with the terms of the Implementation Deed by 8:00am on the Second Court Date;
- (b) neither the Implementation Deed nor the Deed Poll is terminated in accordance with its terms before 8:00am on the Second Court Date;
- (c) this Scheme is approved by the Court having made orders under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are accepted in writing by SLA and API (each acting reasonably);
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme as are accepted in writing by SLA and API (each acting reasonably) are satisfied; and
- (e) the order of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving this Scheme becoming Effective, on or before the End Date.

3.2 Certificates

- (a) Each of SLA and API will provide a certificate (or such other evidence as the Court may require) to the Court at the Second Court Hearing confirming (in respect of matters within their knowledge) whether or not the conditions precedent in clauses 3.1(a) and 3.1(b) of this Scheme have been satisfied or waived (but in the case of the condition precedent in clause 3.1(a) only in respect of those conditions in clause 3.1 of the Implementation Deed (other than the condition relating to Court approval of this Scheme) included for that party's benefit).
- (b) The certificates given by SLA and API under clause 3.2(a) constitute conclusive evidence that the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

3.3 End Date

- (a) Without limiting any rights under the Implementation Deed, this Scheme will lapse and be of no further force or effect if:
 - (i) the Effective Date does not occur on or before the End Date; or
 - (ii) the Implementation Deed or the Deed Poll is terminated in accordance with its terms,

unless API and SLA otherwise agree in writing (and if required, as approved by the Court).
- (b) Without limiting any rights under the Implementation Deed, in the event that the Implementation Deed is terminated in accordance with its terms before 8:00am on the Second Court Date, SLA and API are each released from:
 - (i) any further obligation to take steps to implement this Scheme; and
 - (ii) any liability with respect to this Scheme.

4 Implementation of this Scheme

4.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(e)) are satisfied, SLA must lodge with ASIC an office copy of the order made by the Court under section 411(4)(b) of the Corporations Act approving this Scheme as soon as practicable and in any event before 5:00pm on the Business Day immediately following the day on which SLA receives an office copy of the court orders or such later date as SLA and API agree in writing.

4.2 Transfer of Scheme Shares

Subject to this Scheme becoming Effective, on the Implementation Date:

- (a) subject to the payment of the Scheme Consideration in the manner contemplated by clauses 5.1, 5.2(a) 5.2(b), 5.2(c) and 5.2(g), all of the Scheme Shares, together with all rights and entitlements attaching to them as at the Implementation Date (other than any right to the Special Dividend), must be transferred to API, without the need for any further act by any Scheme Shareholder (other than acts performed by SLA (or any directors, officers, or secretaries of SLA) as attorney and agent for Scheme Shareholders under clause 8.5), by:
 - (i) SLA, in its capacity as the attorney and agent of the Scheme Shareholders, duly completing and executing the Scheme Transfer on behalf of the Scheme Shareholders (as transferors), and delivering it to API; and
 - (ii) API duly executing the Scheme Transfer (as transferee), attending to the stamping of the Scheme Transfer (if required) and delivering it to SLA for registration; and
- (b) immediately following receipt of the duly executed Scheme Transfer in accordance with clause 4.2(a), but subject to the stamping of the Scheme Transfer (if required), SLA must enter, or procure the entry of, the name of API in the SLA Register in

respect of all the Scheme Shares transferred to API in accordance with this Scheme.

5 Scheme Consideration

5.1 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to API of the Scheme Shares, each Scheme Shareholder will be entitled to the Scheme Consideration for each Scheme Share held by that Scheme Shareholder, subject to the terms of this Scheme.

5.2 Payment of Scheme Consideration

- (a) API's obligation to pay the Scheme Consideration will be satisfied by API depositing (or procuring the deposit), in cleared funds an amount equal to the Aggregate Scheme Consideration (less the Withholding Amount) into the Trust Account before 12 noon on the Business Day immediately before the Implementation Date (provided that any interest on the amount so deposited (less bank fees and other charges) (**Accrued Interest**) will accrue for the benefit of API), such amount to be held by SLA for the purposes of paying the Scheme Consideration to Scheme Shareholders in accordance with clause 5.2(b). API must promptly provide SLA with written confirmation of its payment into the Trust Account in accordance with this clause 5.2(a).
- (b) Subject to API paying the Aggregate Scheme Consideration in accordance with clause 5.2(a), and subject to clause 5.2(g), SLA must, on the Implementation Date and from the Trust Account, pay (or procure the payment) to each Scheme Shareholder the proportion of the Aggregate Scheme Consideration attributable to that Scheme Shareholder based on the number of Scheme Shares held by that Scheme Shareholder as at the Scheme Record Date (less any Withholding Amount in respect of that Scheme Shareholder and subject to clause 5.2(g)), which obligation will be satisfied by SLA:
- (i) where a Scheme Shareholder has, before the Scheme Record Date, made a valid election in accordance with the requirements of the Registry to receive dividend payments from SLA by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount of the Aggregate Scheme Consideration in Australian currency by electronic means in accordance with that election; or
 - (ii) paying, or procuring the payment of, the relevant proportion of the Aggregate Scheme Consideration (less any Withholding Amount in respect of that Scheme Shareholder and subject to clause 5.2(g)) in Australian currency by electronic means to a bank account nominated by the Scheme Shareholder by an appropriate authority from the Scheme Shareholder to SLA; or
 - (iii) dispatching, or procuring the dispatch of, a cheque drawn on an Australian bank in Australian currency for the relevant proportion of the Aggregate Scheme Consideration (less any Withholding Amount in respect of that Scheme Shareholder and subject to clause 5.2(g)) to the Scheme Shareholder by prepaid ordinary post (or, if the address of the Scheme Shareholder is outside Australia, by prepaid airmail post) to their Registered Address, such cheque being drawn in the name of the Scheme Shareholder (or, in the case of joint holders, in accordance with clause 5.3).

(c) If API is required by section 260-5 or Subdivision 14-D of Schedule 1 of the *Taxation Administration Act 1953* (Cth), or section 255 of the *Income Tax Assessment Act 1936* (Cth), to pay to the Commissioner of Taxation (**Commissioner**) an amount in respect of the acquisition of Scheme Shares (the **Withholding Amount**), API is permitted to deduct the Withholding Amount from the Scheme Consideration otherwise payable in respect of those Scheme Shares and remit such amounts to the Commissioner. The aggregate sum payable shall not be increased to reflect the deduction of the Withholding Amount and the net sum payable to those Scheme Shareholders to whom the Withholding Amount relates to shall be taken to be in full and final satisfaction of the amounts owing to those Scheme Shareholders.

(d) If:

(i) either:

- (A) a Scheme Shareholder does not have a Registered Address; or
- (B) SLA as the trustee for the Scheme Shareholders believes that a Scheme Shareholder is not known at the Scheme Shareholder's Registered Address,

and no account has been notified in accordance with clause 5.2(b)(i) or (ii) or a deposit into such an account is rejected or refunded; or

(ii) a cheque issued under this clause 5 has been cancelled in accordance with clause 5.5(a),

SLA as the trustee for the Scheme Shareholders may credit the amount payable to the relevant Scheme Shareholder to a separate bank account of SLA (**Separate Account**) to be held until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW). To avoid doubt, if the amount is not credited to a Separate Account, the amount will continue to be held in the Trust Account until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW).

Until such time as the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW), SLA must hold on trust the amount for the relevant Scheme Shareholder, but any interest or other benefit accruing from the amount will be to the benefit of API. An amount credited to the Separate Account or Trust Account (as applicable) is to be treated as having been paid to the Scheme Shareholder when credited to the Separate Account or Trust Account (as applicable). SLA must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

(e) To the extent that there is a surplus in the amount held by SLA as the trustee for the Scheme Shareholders in the Trust Account, that surplus may be paid by SLA as the trustee for the Scheme Shareholders to API following the satisfaction of SLA's obligations as the trustee for the Scheme Shareholders under this clause 5.2.

(f) SLA must pay any Accrued Interest to any account nominated by API following satisfaction of SLA's obligations under clause 5.2(b).

(g) In respect of any Scheme Shareholder to which SLA or one of its subsidiaries has provided a loan for the purpose of their acquisition of Scheme Shares (or their

acquisition of any shares in a subsidiary of SLA which were exchanged for Scheme Shares) and that loan remains outstanding as at the Implementation Date, the obligations of SLA in clause 5.2(b) will be satisfied by SLA paying (or procuring payment) from the Trust Account:

- (i) to SLA or its subsidiary (as applicable) the portion of the Scheme Consideration equal to the aggregate amount of the loan which SLA or its subsidiary (as applicable) is owed by that Scheme Shareholder (in satisfaction of that outstanding loan); and
- (ii) as to the balance (if any) of the Scheme Consideration payable to that Scheme Shareholder under clause 5.2(b), to that Scheme Shareholder in accordance with clause 5.2(b).

5.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the SLA Register as at the Scheme Record Date; and
- (b) any other document required to be sent under this Scheme will be forwarded to the holder whose name appears first in the SLA Register as at the Scheme Record Date.

5.4 Fractional entitlements and splitting

Where the calculation of the Scheme Consideration to be issued to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded down to the nearest whole cent.

5.5 Cancellation and re-issue of cheques

- (a) SLA may cancel a cheque issued under this clause 5 if the cheque:
 - (i) is returned to SLA; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to SLA (or the Registry) (which request may not be made until the date which is 10 Business Days after the Implementation Date), a cheque that was previously cancelled under clause 5.5(a) must be reissued by SLA.

5.6 Unclaimed monies

- (a) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act 1995* (NSW)).
- (b) Any interest or other benefit accruing from unclaimed Scheme Consideration will be to the benefit of API.

5.7 Orders of a court or Government Agency

If written notice is given to SLA (or the Registry) or API of an order or direction made by a court of competent jurisdiction or by another Government Agency that:

- (a) requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which sum would otherwise be payable to that Scheme Shareholder by SLA in accordance with this clause 5, then SLA will be entitled to make that payment (or procure that it is made) in accordance with that order or direction; or
- (b) prevents SLA from making a payment to a particular Scheme Shareholder in accordance with clause 5.2(b), or such payment is otherwise prohibited by applicable law, SLA will be entitled to retain an amount, in Australian dollars, equal to the relevant amount until such time as payment in accordance with this clause 5 is permitted by that order or direction or otherwise by law,

and the payment or retention by SLA will constitute full discharge of SLA's obligations under clause 5.2(b) with respect to the amount so paid or retained until, in the case of clause 5.7(b), it is no longer required to be retained.

For the avoidance of doubt, if the relevant order or direction prevents the payment of only part of the Scheme Consideration which would otherwise be payable to a Scheme Shareholder, SLA and API will pay to the Scheme Shareholder (or procure payment of) the maximum possible portion of the Scheme Consideration to which that Scheme Shareholder is entitled without giving rise to a breach of that order or direction and this clause 5.7 will only apply in respect of the remaining portion.

6 Dealings in SLA Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in SLA Shares or other alterations to the SLA Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHES, the transferee is registered in the SLA Register as the holder of the relevant SLA Shares at or before the Scheme Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Scheme Record Date at the place where the SLA Register is kept,

and SLA must not accept for registration, nor recognise for any purpose (except a transfer to API pursuant to this Scheme and any subsequent transfer by API or its successors in title), any transfer or transmission application or other request received after the Scheme Record Date, or received prior to the Scheme Record Date but not in registrable or actionable form.

6.2 Register

SLA must register, or cause to be registered, registrable transmission applications or transfers of Scheme Shares in accordance with clause 6.1(b) at or before the Scheme Record Date or as soon as practicable thereafter, provided that nothing in this clause 6.2 requires SLA to register a transfer that would result in a SLA Shareholder holding a parcel

of SLA Shares that is less than a 'marketable parcel' (as defined in the ASX Settlement Rules).

6.3 No disposals after Scheme Record Date

If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no legal effect and SLA will be entitled to disregard any such disposal, purported disposal or agreement.

6.4 Maintenance of SLA Register

For the purpose of determining entitlements to the Scheme Consideration, SLA must maintain the SLA Register in accordance with the provisions of this clause 6.4 until the Scheme Consideration has been paid to the Scheme Shareholders and API has been entered in the SLA Register as the holder of all the Scheme Shares. The SLA Register in this form will solely determine entitlements to the Scheme Consideration.

6.5 Effect of certificates and holding statements

Subject to payment of the Scheme Consideration and registration of the transfer of the Scheme Shares to API in accordance with this Scheme, all statements of holding or share certificates for Scheme Shares (other than statements of holding in favour of API or its successors in title) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the SLA Register (other than entries in respect of API or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the SLA Shares relating to that entry.

6.6 Details of Scheme Shareholders

As soon as practicable after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, SLA will ensure that the details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Shareholder as shown in the SLA Register as at the Scheme Record Date are available to API in the form API reasonably requires.

7 Quotation of SLA Shares

- (a) SLA must apply to ASX to suspend trading in SLA Shares with effect from the close of trading on the Effective Date.
- (b) SLA must apply:
 - (i) for termination of the official quotation of SLA Shares on the ASX; and
 - (ii) to have itself removed from the official list of ASX,

in each case with effect on and from the close of trading on the trading day immediately following the Implementation Date, or such later date as may be:

 - (iii) requested by API, acting reasonably; and
 - (iv) permitted by ASX.

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8 General Scheme provisions

8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) SLA may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which API has consented (such consent of API not to be unreasonably withheld or delayed); and
- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for SLA has consented.

8.2 Scheme Shareholders' agreements and warranties

- (a) Each Scheme Shareholder:
 - (i) irrevocably agrees to the transfer of their Scheme Shares together with all rights and entitlements attaching to those Scheme Shares (other than a right to the Special Dividend) to API in accordance with this Scheme;
 - (ii) agrees to the variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Scheme;
 - (iii) agrees to, on the direction of API, destroy any statements of holding or share certificates relating to their Scheme Shares;
 - (iv) who holds its Scheme Shares in a CHESS Holding agrees to the conversion of those Scheme Shares to an Issuer Sponsored Holding and irrevocably authorises SLA to do anything necessary, expedient or incidental (whether required by the ASX Settlement Rules or otherwise) to effect or facilitate such conversion; and
 - (v) acknowledges that this Scheme binds SLA and all Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting),without the need for any further act by the Scheme Shareholder.
- (b) Each Scheme Shareholder is taken to have warranted to SLA and API on the Implementation Date, and appointed and authorised SLA as its attorney and agent to warrant to API, that:
 - (i) all of their Scheme Shares (including any rights and entitlements attaching to their Scheme Shares) which are transferred under this Scheme will, at the time of transfer of them to API, be free from all:
 - (A) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (B) restrictions on transfer of any kind;

- (ii) they have full power and capacity to transfer their Scheme Shares to API under the Scheme together with any rights and entitlements attaching to those Scheme Shares;
- (iii) all of their Scheme Shares which are transferred to API under this Scheme will, on the date on which they are transferred to API, be fully paid; and
- (iv) they have no existing right to be issued any other Scheme Shares, any other form of SLA Shares, options exercisable into SLA Shares, SLA convertible notes or any other SLA securities,

and SLA undertakes that it will provide such warranty to API as agent and attorney of each Scheme Shareholder.

8.3 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme will, at the time of transfer of them to API, vest in API free from all:
 - (i) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (ii) restrictions on transfer of any kind.
- (b) On the payment of the Scheme Consideration in the manner contemplated by clauses 5.1, 5.2(a) 5.2(b), 5.2(c) and 5.2(g), API will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by SLA of API in the SLA Register as the holder of the Scheme Shares. API's entitlement to be registered in the SLA Register as the holder of the Scheme Shares arises on the Implementation Date in accordance with clause 4.2.

8.4 Appointment of API as sole proxy

On the payment of the Scheme Consideration in the manner contemplated by clauses 5.1, 5.2(a) 5.2(b), 5.2(c) and 5.2(g), and until SLA registers API as the holder of all Scheme Shares in the SLA Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed API as attorney and agent (and directs API in each such capacity) to appoint any director, officer, secretary or agent nominated by API from time to time as its sole proxy and, where applicable or appropriate, corporate representative to attend SLA shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any SLA shareholders' resolution whether in person, by proxy or by corporate representative;
- (b) must not attend or vote at any SLA shareholders' meetings, exercise the votes attaching to Scheme Shares registered in their names or sign any SLA shareholders' resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as API reasonably directs; and

- (d) acknowledges and agrees that in exercising the powers conferred by clause 8.4(a), API and any director, officer, secretary or agent nominated by API under that clause may act in the best interests of API as the intended registered holder of the Scheme Shares.

8.5 Authority given to SLA

On and from the Effective Date, each Scheme Shareholder, without the need for any further act by the Scheme Shareholder, irrevocably appoints SLA and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purposes of:

- (a) enforcing the Deed Poll against API; and
- (b) executing any document, or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including executing the Scheme Transfer,

and SLA accepts such appointment. SLA, as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers or secretaries (jointly, severally or jointly and severally).

8.6 Binding effect of this Scheme

This Scheme binds SLA and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting) and, to the extent of any inconsistency, overrides SLA's constituent documents.

9 General

9.1 Stamp duty

- (a) API will:
 - (i) pay all stamp duty (if any) and any related fines, interest and penalties payable in respect of the Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under or in connection with the Scheme and the Deed Poll; and
 - (ii) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a)(i).

9.2 Consent

Each Scheme Shareholder consents to SLA doing all things necessary or incidental to give full effect to the implementation of this Scheme and the transactions contemplated by it, whether on behalf of the Scheme Shareholders, SLA or otherwise.

9.3 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to SLA, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if

any) on which it is actually received at SLA's registered office or at the office of the Registry.

- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a SLA Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.4 Governing law and jurisdiction

- (a) This Scheme and any dispute arising out of or in connection with the subject matters of this document is governed by the laws in force in NSW, Australia.
- (b) Each party irrevocably:
 - (i) submits to the non-exclusive jurisdiction of the courts of NSW, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this Scheme; and
 - (ii) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 9.4(b)(i).

9.5 Further action

SLA must do all things and execute all documents necessary or incidental to give full effect to this Scheme and the transactions contemplated by it.

9.6 No liability when acting in good faith

Each Scheme Shareholder agrees that none of SLA's or API's respective directors, officers or employees, will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll when the relevant person has acted in good faith.

Schedule 1 Dictionary

1 Dictionary

Accrued Interest has the meaning given in clause 5.2(a).

Aggregate Scheme Consideration means the Scheme Consideration multiplied by the total number of Scheme Shares.

API means Australian Pharmaceutical Industries Pty Ltd (ACN 000 004 320).

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, where the context requires, the financial market operated by it.

ASX Settlement Rules means operating rules of the settlement facility provided by ASX Settlement Pty Ltd (ACN 008 504 532).

Business Day has the meaning given in the official listing rules of ASX.

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited and ASX Clear Pty Limited.

CHESS Holding has the meaning given in the ASX Settlement Rules.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia (NSW Registry) or such other court of competent jurisdiction under the Corporations Act agreed in writing by SLA and API.

Deed Poll means the deed poll dated [] 2023 under which, among other things, API covenants in favour of Scheme Shareholders to pay the Scheme Consideration in accordance with the Scheme.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective.

End Date means 1 April 2024, or such later date as SLA and API agree in writing.

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel).

Implementation Date means the fifth Business Day after the Scheme Record Date or such other day as SLA and API agree in writing.

Implementation Deed means the scheme implementation deed dated 26 June 2023 between SLA and API relating to, among other things, the implementation of the Scheme.

Issuer Sponsored Holding has the meaning given in the ASX Settlement Rules.

Notice has the meaning given in the Implementation Deed.

Registered Address means, in relation to a Scheme Shareholder, the address shown in the SLA Register as at the Scheme Record Date.

Registry means Computershare Investor Services Pty Limited.

Scheme means this scheme of arrangement between SLA and Scheme Shareholders under which all of the Scheme Shares will be transferred to API under Part 5.1 of the Corporations Act, in consideration for the Scheme Consideration, subject to any alterations or conditions that are:

- (a) agreed to in writing by SLA and API, and approved by the Court; or
- (b) made or required by the Court under section 411(6) of the Corporations Act and agreed to in writing by SLA and API.

Scheme Consideration means an amount of \$3.35 for each Scheme Share, subject to, and as adjusted in accordance with, clause 5(h) of the Implementation Deed (if applicable).

Scheme Meeting means the meeting of SLA Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider this Scheme, and includes any adjournment thereof.

Scheme Record Date means 7:00pm on the fifth Business Day after the Effective Date, or such other time and date as SLA and API agree in writing and ASX may allow.

Scheme Share means a SLA Share held by a Scheme Shareholder as at the Scheme Record Date.

Scheme Shareholder means a SLA Shareholder as at the Scheme Record Date.

Scheme Transfer means one or more proper instruments of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act in favour of API as transferee, which may be or include a master transfer of all or part of the Scheme Shares.

Second Court Date means the first day on which an application made to the Court for orders under section 411(4)(b) of the Corporations Act approving this Scheme is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Separate Account has the meaning given in clause 5.2(c).

SLA means SILK Laser Australia Limited (ACN 645 400 399).

SLA Register means the register of SLA Shareholders maintained in accordance with the Corporations Act.

SLA Share means a fully paid ordinary share in the capital of SLA.

SLA Shareholder means a holder of one or more SLA Shares, as shown in the SLA Register.

Special Dividend has the meaning given in the Implementation Deed.

Trust Account means an Australian dollar denominated trust account which is operated by or on behalf of SLA as trustee for the Scheme Shareholders.

Withholding Amount has the meaning given in clause 5.2(c).

2 Interpretation

In this Scheme, the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this Scheme.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.
- (e) The words 'include', 'including', 'such as', 'for example' and similar expressions are not words of limitation and do not limit what else might be included.
- (f) A reference to:
 - (i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);
 - (ii) a thing (including a chose in action or other right) includes a part of that thing;
 - (iii) a party includes its successors and permitted assigns;
 - (iv) a document includes all amendments or supplements to that document;
 - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this Scheme (as applicable);
 - (vi) this Scheme includes all schedules to it;
 - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;
 - (viii) an agreement (other than this Scheme) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);
 - (ix) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends; and

- (x) a monetary amount is in Australian dollars.
- (g) An agreement on the part of two or more persons binds them jointly and severally.
- (h) When the day on which something must be done is not a Business Day, that thing must be done on the following Business Day.
- (i) In determining the time of day where relevant to this Scheme, the time of day is:
 - (i) for the purposes of giving or receiving Notice, the time of day where the party receiving Notice is located; or
 - (ii) for any other purpose under this Scheme, the time of day in Sydney, New South Wales.
- (j) No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this Scheme or any part of it.

Annexure C

Deed Poll

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Deed poll

Australian Pharmaceutical Industries Pty Ltd

In favour of each person registered as a holder of SLA Shares as at the Scheme Record Date

SYDNEY | MELBOURNE | PERTH

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Contents		Page
1	Defined terms and interpretation	2
2	Conditions	3
3	API undertakings	3
4	Warranties	4
5	Continuing obligations	4
6	General	5
	Execution page	9

Date: 29 September 2023

Parties

Australian Pharmaceutical Industries Pty Ltd (ACN 000 004 320) of Level 14, Brookfield Place, Tower 2, 123 St Georges Terrace, Perth WA 6000 (**API**)

In favour of each person registered as a holder of SLA Shares as at the Scheme Record Date (**Scheme Shareholders**)

Background

- A SLA and API have entered into the Implementation Deed, under which:
- (i) SLA and API have agreed to implement the Scheme;
 - (ii) the effect of the Scheme will be that all Scheme Shares will be transferred to API; and
 - (iii) API has agreed to:
 - (A) enter into this deed poll; and
 - (B) pay or procure the provision of the Scheme Consideration to each Scheme Shareholder, in accordance with the Scheme.
- B API is entering into this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to undertake the actions attributed to API under the Scheme.
-

1 Defined terms and interpretation

1.1 Defined terms

Unless the context otherwise requires:

- (a) **Implementation Deed** means the scheme implementation deed dated 26 June 2023 between SLA and API relating to (among other things) the implementation of the Scheme;
- (b) **Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between SLA and the Scheme Shareholders, in the form of Attachment A, subject to any alterations or conditions:
 - (i) agreed to in writing by SLA and API, and approved by the Court; or
 - (ii) made or required by the Court under section 411(6) of the Corporations Act as are acceptable to SLA and API (each acting reasonably);
- (c) **Withholding Amount** has the meaning set out in Attachment A; and
- (d) terms defined in the Implementation Deed have the same meaning when used in this deed poll.

1.2 Interpretation

Clause 2 of Schedule 1 of the Implementation Deed applies to the interpretation of this deed poll, except that references to 'this document' in clause 2 of Schedule 1 of the Implementation Deed are to be read as references to 'this deed poll'.

1.3 Nature of deed poll

API acknowledges and agrees that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with the terms of this deed poll even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder, without the need for any further act by the Scheme Shareholder, irrevocably appoints SLA and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against API.

2 Conditions

2.1 Conditions

This deed poll and the obligations of API under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

This deed poll and the obligations of API under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme does not become Effective on or before the End Date or any later date as the Court, with the consent of API and SLA may order,

unless SLA and API otherwise agree in writing (and if required, as approved by the Court).

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2:

- (a) API is released from its obligations to further perform this deed poll, except those obligations under clause 6.1; and
- (b) in addition and without prejudice to any other rights, powers or remedies available to the Scheme Shareholders, each Scheme Shareholder retains the rights they have against API in respect of any breach of this deed poll which occurred before it was terminated.

3 API undertakings

Subject to clause 2, API undertakes in favour of each Scheme Shareholder to:

- (a) deposit or procure the deposit of the Aggregate Scheme Consideration (less the Withholding Amount) in cleared funds into a trust account operated by or on behalf of SLA as trustee for the Scheme Shareholders before 12 noon on the Business Day immediately before the Implementation Date (it being noted that, in accordance with the Scheme, any interest on the amount so deposited, less bank fees and other charges, will accrue for the benefit of API); and
- (b) provide or procure the provision of the Scheme Consideration in accordance with the terms of the Scheme; and
- (c) undertake or procure the undertaking of all other actions attributed to it under the Scheme, as if named as a party to the Scheme,

in each case subject to and in accordance with the terms and conditions of the Scheme.

4 Warranties

API represents and warrants in favour of each Scheme Shareholder that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the legal right and full corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance by it of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) it is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets (or any event under any law which is analogous to, or which has a substantially similar effect to, any of the events referred to in this paragraph);
- (e) this deed poll is valid and binding on it and is enforceable against it in accordance with the terms of this deed poll; and
- (f) this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound.

5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) API has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

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6 General

6.1 Stamp duty

API must:

- (a) pay all stamp duty (if any) and any related fines, interest and penalties payable in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under or in connection with the Scheme and this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 6.1(a).

6.2 Notices

- (a) Any notice or other communication to API in connection with this deed poll must be:
 - (i) in legible writing in English;
 - (ii) signed by the person making the communication or that person's duly authorised agent; and
 - (iii) given by hand delivery, pre-paid post or email in accordance with the details set out below:

API

Attention: Christian Bauer

Address: Level 14, Brookfield Place, Tower 2, 123 St Georges Terrace,
Perth WA 6000

Email: cbauer@wesfarmers.com.au

with a copy (for information purposes only) to Karen Evans-Cullen, Gilbert + Tobin by email at KEvans-Cullen@gtlaw.com.au

- (b) Subject to clause 6.2(b)(iii), any notice or other communication given in accordance with clause 6.2(a) will be taken to have been received as follows:
 - (i) if delivered by hand, on delivery;
 - (ii) if sent by pre-paid post, 2 Business Days after posting (or 7 Business Days after posting if sent from one country to another); and
 - (iii) if sent by email immediately unless the sender receives a message indicating that the email has not been received by the intended recipient.
- (c) Any notice or other communication that, pursuant to clause 6.2(b), would be deemed to be given:

- (i) before 9:00am on a Business Day, it will be taken to be received at 9:00am on that Business Day; or
- (ii) after 5:00pm on a Business Day or on a non-Business Day, it will be taken to be received at 9:00am on the next Business Day,

where references to time are to time in the place the recipient is located.

6.3 Cumulative rights

The rights, powers and remedies of API and each Scheme Shareholder under this deed poll are cumulative with and do not exclude the rights, powers or remedies provided by law independently of this deed poll.

6.4 Waiver

- (a) A party waives a right under this deed poll only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given.
- (b) Failure to exercise or enforce, a delay in exercising or enforcing or the partial exercise or enforcement of:
 - (i) any right, power or remedy provided by law or under this deed poll; or
 - (ii) any right, power, authority, discretion or remedy created or arising upon default under this deed poll,

by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed poll.

6.5 Variation

A provision of this deed poll may not be varied unless:

- (a) if before the First Court Date, the variation is agreed to by SLA in writing; or
- (b) if on or after the First Court Date, the variation is agreed to by SLA in writing and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event API must enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

6.6 Governing law and jurisdiction

- (a) This deed poll and any dispute arising out of or in connection with the subject matters of this deed poll is governed by the laws in force in New South Wales, Australia.
- (b) API irrevocably:
 - (i) submits to the non-exclusive jurisdiction of the courts of New South Wales, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to the Scheme; and

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- (ii) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 6.6(b)(i).

6.7 Assignment

- (a) The rights created by this deed poll are personal to API and each Scheme Shareholder, and must not be dealt with at law or in equity.
- (b) Any purported dealing in contravention of clause 6.7(a) is invalid.

6.8 Further action

API must, at its own expense, promptly do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

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Attachment A Scheme



Scheme of arrangement

SILK Laser Australia Limited

Each person registered as a holder of SLA Shares as at the Scheme Record Date

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Contents

Page

1	Defined terms and interpretation	2
2	Preliminary matters	2
3	Conditions	3
4	Implementation of this Scheme	4
5	Scheme Consideration	5
6	Dealings in SLA Shares	8
7	Quotation of SLA Shares	9
8	General Scheme provisions	10
9	General	12
	Schedule 1 Dictionary	14

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Date: [•] 2023

This scheme of arrangement is made under section 411 of the Corporations Act.

Parties

- 1 **SILK Laser Australia Limited** (ACN 645 400 399) of 1/137 The Parade, Norwood SA 5067 (**SLA**)
- 2 Each SLA Shareholder registered as a holder of fully paid SLA Shares as at the Scheme Record Date (**Scheme Shareholders**)

The parties agree

1 Defined terms and interpretation

1.1 Defined terms

A term or expression which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this Scheme.

2 Preliminary matters

2.1 SLA

- (a) SLA is an Australian public company limited by shares and SLA has been admitted to the official list of ASX.
- (b) As at the date of the Implementation Deed, 53,121,177 SLA Shares were on issue which are officially quoted for trading on ASX.

2.2 API

API is an Australian proprietary company limited by shares.

2.3 If Scheme becomes Effective

- (a) If this Scheme becomes Effective:
 - (i) in consideration of the transfer of the Scheme Shares to API, API must pay or procure the payment of the Scheme Consideration to SLA on behalf of the Scheme Shareholders in accordance with this Scheme and the Deed Poll;
 - (ii) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to API on the Implementation Date; and
 - (iii) SLA will enter the name of API in the SLA Register in respect of all the Scheme Shares transferred to API in accordance with the terms of this Scheme.

- (b) SLA and API have entered into the Implementation Deed in respect of (among other things) the implementation of this Scheme.
- (c) This Scheme attributes certain actions to API but does not itself impose any obligations on API to perform those actions, as API is not a party to this Scheme. By executing the Deed Poll, API has agreed to perform the actions attributed to it under this Scheme, including the payment or procuring the payment of the Scheme Consideration to the Scheme Shareholders subject to the terms and conditions of this Scheme.

3 Conditions

3.1 Conditions precedent

This Scheme is conditional on and will not become Effective until and unless the following conditions precedent are satisfied:

- (a) all the conditions in clause 3.1 of the Implementation Deed (other than the condition in the Implementation Deed relating to Court approval of this Scheme) are satisfied or waived in accordance with the terms of the Implementation Deed by 8:00am on the Second Court Date;
- (b) neither the Implementation Deed nor the Deed Poll is terminated in accordance with its terms before 8:00am on the Second Court Date;
- (c) this Scheme is approved by the Court having made orders under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are accepted in writing by SLA and API (each acting reasonably);
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme as are accepted in writing by SLA and API (each acting reasonably) are satisfied; and
- (e) the order of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving this Scheme becoming Effective, on or before the End Date.

3.2 Certificates

- (a) Each of SLA and API will provide a certificate (or such other evidence as the Court may require) to the Court at the Second Court Hearing confirming (in respect of matters within their knowledge) whether or not the conditions precedent in clauses 3.1(a) and 3.1(b) of this Scheme have been satisfied or waived (but in the case of the condition precedent in clause 3.1(a) only in respect of those conditions in clause 3.1 of the Implementation Deed (other than the condition relating to Court approval of this Scheme) included for that party's benefit).
- (b) The certificates given by SLA and API under clause 3.2(a) constitute conclusive evidence that the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

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3.3 End Date

- (a) Without limiting any rights under the Implementation Deed, this Scheme will lapse and be of no further force or effect if:
 - (i) the Effective Date does not occur on or before the End Date; or
 - (ii) the Implementation Deed or the Deed Poll is terminated in accordance with its terms,

unless API and SLA otherwise agree in writing (and if required, as approved by the Court).
- (b) Without limiting any rights under the Implementation Deed, in the event that the Implementation Deed is terminated in accordance with its terms before 8:00am on the Second Court Date, SLA and API are each released from:
 - (i) any further obligation to take steps to implement this Scheme; and
 - (ii) any liability with respect to this Scheme.

4 Implementation of this Scheme

4.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(e)) are satisfied, SLA must lodge with ASIC an office copy of the order made by the Court under section 411(4)(b) of the Corporations Act approving this Scheme as soon as practicable and in any event before 5:00pm on the Business Day immediately following the day on which SLA receives an office copy of the court orders or such later date as SLA and API agree in writing.

4.2 Transfer of Scheme Shares

Subject to this Scheme becoming Effective, on the Implementation Date:

- (a) subject to the payment of the Scheme Consideration in the manner contemplated by clauses 5.1, 5.2(a) 5.2(b), 5.2(c) and 5.2(g), all of the Scheme Shares, together with all rights and entitlements attaching to them as at the Implementation Date (other than any right to the Special Dividend), must be transferred to API, without the need for any further act by any Scheme Shareholder (other than acts performed by SLA (or any directors, officers, or secretaries of SLA) as attorney and agent for Scheme Shareholders under clause 8.5), by:
 - (i) SLA, in its capacity as the attorney and agent of the Scheme Shareholders, duly completing and executing the Scheme Transfer on behalf of the Scheme Shareholders (as transferors), and delivering it to API; and
 - (ii) API duly executing the Scheme Transfer (as transferee), attending to the stamping of the Scheme Transfer (if required) and delivering it to SLA for registration; and
- (b) immediately following receipt of the duly executed Scheme Transfer in accordance with clause 4.2(a), but subject to the stamping of the Scheme Transfer (if required), SLA must enter, or procure the entry of, the name of API in the SLA Register in

respect of all the Scheme Shares transferred to API in accordance with this Scheme.

5 Scheme Consideration

5.1 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to API of the Scheme Shares, each Scheme Shareholder will be entitled to the Scheme Consideration for each Scheme Share held by that Scheme Shareholder, subject to the terms of this Scheme.

5.2 Payment of Scheme Consideration

- (a) API's obligation to pay the Scheme Consideration will be satisfied by API depositing (or procuring the deposit), in cleared funds an amount equal to the Aggregate Scheme Consideration (less the Withholding Amount) into the Trust Account before 12 noon on the Business Day immediately before the Implementation Date (provided that any interest on the amount so deposited (less bank fees and other charges) (**Accrued Interest**) will accrue for the benefit of API), such amount to be held by SLA for the purposes of paying the Scheme Consideration to Scheme Shareholders in accordance with clause 5.2(b). API must promptly provide SLA with written confirmation of its payment into the Trust Account in accordance with this clause 5.2(a).
- (b) Subject to API paying the Aggregate Scheme Consideration in accordance with clause 5.2(a), and subject to clause 5.2(g), SLA must, on the Implementation Date and from the Trust Account, pay (or procure the payment) to each Scheme Shareholder the proportion of the Aggregate Scheme Consideration attributable to that Scheme Shareholder based on the number of Scheme Shares held by that Scheme Shareholder as at the Scheme Record Date (less any Withholding Amount in respect of that Scheme Shareholder and subject to clause 5.2(g)), which obligation will be satisfied by SLA:
- (i) where a Scheme Shareholder has, before the Scheme Record Date, made a valid election in accordance with the requirements of the Registry to receive dividend payments from SLA by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount of the Aggregate Scheme Consideration in Australian currency by electronic means in accordance with that election; or
 - (ii) paying, or procuring the payment of, the relevant proportion of the Aggregate Scheme Consideration (less any Withholding Amount in respect of that Scheme Shareholder and subject to clause 5.2(g)) in Australian currency by electronic means to a bank account nominated by the Scheme Shareholder by an appropriate authority from the Scheme Shareholder to SLA; or
 - (iii) dispatching, or procuring the dispatch of, a cheque drawn on an Australian bank in Australian currency for the relevant proportion of the Aggregate Scheme Consideration (less any Withholding Amount in respect of that Scheme Shareholder and subject to clause 5.2(g)) to the Scheme Shareholder by prepaid ordinary post (or, if the address of the Scheme Shareholder is outside Australia, by prepaid airmail post) to their Registered Address, such cheque being drawn in the name of the Scheme Shareholder (or, in the case of joint holders, in accordance with clause 5.3).

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(c) If API is required by section 260-5 or Subdivision 14-D of Schedule 1 of the *Taxation Administration Act 1953* (Cth), or section 255 of the *Income Tax Assessment Act 1936* (Cth), to pay to the Commissioner of Taxation (**Commissioner**) an amount in respect of the acquisition of Scheme Shares (the **Withholding Amount**), API is permitted to deduct the Withholding Amount from the Scheme Consideration otherwise payable in respect of those Scheme Shares and remit such amounts to the Commissioner. The aggregate sum payable shall not be increased to reflect the deduction of the Withholding Amount and the net sum payable to those Scheme Shareholders to whom the Withholding Amount relates shall be taken to be in full and final satisfaction of the amounts owing to those Scheme Shareholders.

(d) If:

(i) either:

(A) a Scheme Shareholder does not have a Registered Address; or

(B) SLA as the trustee for the Scheme Shareholders believes that a Scheme Shareholder is not known at the Scheme Shareholder's Registered Address,

and no account has been notified in accordance with clause 5.2(b)(i) or (ii) or a deposit into such an account is rejected or refunded; or

(ii) a cheque issued under this clause 5 has been cancelled in accordance with clause 5.5(a),

SLA as the trustee for the Scheme Shareholders may credit the amount payable to the relevant Scheme Shareholder to a separate bank account of SLA (**Separate Account**) to be held until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW). To avoid doubt, if the amount is not credited to a Separate Account, the amount will continue to be held in the Trust Account until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW).

Until such time as the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW), SLA must hold on trust the amount for the relevant Scheme Shareholder, but any interest or other benefit accruing from the amount will be to the benefit of API. An amount credited to the Separate Account or Trust Account (as applicable) is to be treated as having been paid to the Scheme Shareholder when credited to the Separate Account or Trust Account (as applicable). SLA must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

(e) To the extent that there is a surplus in the amount held by SLA as the trustee for the Scheme Shareholders in the Trust Account, that surplus may be paid by SLA as the trustee for the Scheme Shareholders to API following the satisfaction of SLA's obligations as the trustee for the Scheme Shareholders under this clause 5.2.

(f) SLA must pay any Accrued Interest to any account nominated by API following satisfaction of SLA's obligations under clause 5.2(b).

(g) In respect of any Scheme Shareholder to which SLA or one of its subsidiaries has provided a loan for the purpose of their acquisition of Scheme Shares (or their

acquisition of any shares in a subsidiary of SLA which were exchanged for Scheme Shares) and that loan remains outstanding as at the Implementation Date, the obligations of SLA in clause 5.2(b) will be satisfied by SLA paying (or procuring payment) from the Trust Account:

- (i) to SLA or its subsidiary (as applicable) the portion of the Scheme Consideration equal to the aggregate amount of the loan which SLA or its subsidiary (as applicable) is owed by that Scheme Shareholder (in satisfaction of that outstanding loan); and
- (ii) as to the balance (if any) of the Scheme Consideration payable to that Scheme Shareholder under clause 5.2(b), to that Scheme Shareholder in accordance with clause 5.2(b).

5.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the SLA Register as at the Scheme Record Date; and
- (b) any other document required to be sent under this Scheme will be forwarded to the holder whose name appears first in the SLA Register as at the Scheme Record Date.

5.4 Fractional entitlements and splitting

Where the calculation of the Scheme Consideration to be issued to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded down to the nearest whole cent.

5.5 Cancellation and re-issue of cheques

- (a) SLA may cancel a cheque issued under this clause 5 if the cheque:
 - (i) is returned to SLA; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to SLA (or the Registry) (which request may not be made until the date which is 10 Business Days after the Implementation Date), a cheque that was previously cancelled under clause 5.5(a) must be reissued by SLA.

5.6 Unclaimed monies

- (a) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act 1995* (NSW)).
- (b) Any interest or other benefit accruing from unclaimed Scheme Consideration will be to the benefit of API.

5.7 Orders of a court or Government Agency

If written notice is given to SLA (or the Registry) or API of an order or direction made by a court of competent jurisdiction or by another Government Agency that:

- (a) requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which sum would otherwise be payable to that Scheme Shareholder by SLA in accordance with this clause 5, then SLA will be entitled to make that payment (or procure that it is made) in accordance with that order or direction; or
- (b) prevents SLA from making a payment to a particular Scheme Shareholder in accordance with clause 5.2(b), or such payment is otherwise prohibited by applicable law, SLA will be entitled to retain an amount, in Australian dollars, equal to the relevant amount until such time as payment in accordance with this clause 5 is permitted by that order or direction or otherwise by law,

and the payment or retention by SLA will constitute full discharge of SLA's obligations under clause 5.2(b) with respect to the amount so paid or retained until, in the case of clause 5.7(b), it is no longer required to be retained.

For the avoidance of doubt, if the relevant order or direction prevents the payment of only part of the Scheme Consideration which would otherwise be payable to a Scheme Shareholder, SLA and API will pay to the Scheme Shareholder (or procure payment of) the maximum possible portion of the Scheme Consideration to which that Scheme Shareholder is entitled without giving rise to a breach of that order or direction and this clause 5.7 will only apply in respect of the remaining portion.

6 Dealings in SLA Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in SLA Shares or other alterations to the SLA Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the SLA Register as the holder of the relevant SLA Shares at or before the Scheme Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Scheme Record Date at the place where the SLA Register is kept,

and SLA must not accept for registration, nor recognise for any purpose (except a transfer to API pursuant to this Scheme and any subsequent transfer by API or its successors in title), any transfer or transmission application or other request received after the Scheme Record Date, or received prior to the Scheme Record Date but not in registrable or actionable form.

6.2 Register

SLA must register, or cause to be registered, registrable transmission applications or transfers of Scheme Shares in accordance with clause 6.1(b) at or before the Scheme Record Date or as soon as practicable thereafter, provided that nothing in this clause 6.2 requires SLA to register a transfer that would result in a SLA Shareholder holding a parcel

of SLA Shares that is less than a 'marketable parcel' (as defined in the ASX Settlement Rules).

6.3 No disposals after Scheme Record Date

If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no legal effect and SLA will be entitled to disregard any such disposal, purported disposal or agreement.

6.4 Maintenance of SLA Register

For the purpose of determining entitlements to the Scheme Consideration, SLA must maintain the SLA Register in accordance with the provisions of this clause 6.4 until the Scheme Consideration has been paid to the Scheme Shareholders and API has been entered in the SLA Register as the holder of all the Scheme Shares. The SLA Register in this form will solely determine entitlements to the Scheme Consideration.

6.5 Effect of certificates and holding statements

Subject to payment of the Scheme Consideration and registration of the transfer of the Scheme Shares to API in accordance with this Scheme, all statements of holding or share certificates for Scheme Shares (other than statements of holding in favour of API or its successors in title) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the SLA Register (other than entries in respect of API or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the SLA Shares relating to that entry.

6.6 Details of Scheme Shareholders

As soon as practicable after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, SLA will ensure that the details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Shareholder as shown in the SLA Register as at the Scheme Record Date are available to API in the form API reasonably requires.

7 Quotation of SLA Shares

- (a) SLA must apply to ASX to suspend trading in SLA Shares with effect from the close of trading on the Effective Date.
- (b) SLA must apply:
 - (i) for termination of the official quotation of SLA Shares on the ASX; and
 - (ii) to have itself removed from the official list of ASX,

in each case with effect on and from the close of trading on the trading day immediately following the Implementation Date, or such later date as may be:

 - (iii) requested by API, acting reasonably; and
 - (iv) permitted by ASX.

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8 General Scheme provisions

8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) SLA may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which API has consented (such consent of API not to be unreasonably withheld or delayed); and
- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for SLA has consented.

8.2 Scheme Shareholders' agreements and warranties

- (a) Each Scheme Shareholder:
 - (i) irrevocably agrees to the transfer of their Scheme Shares together with all rights and entitlements attaching to those Scheme Shares (other than a right to the Special Dividend) to API in accordance with this Scheme;
 - (ii) agrees to the variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Scheme;
 - (iii) agrees to, on the direction of API, destroy any statements of holding or share certificates relating to their Scheme Shares;
 - (iv) who holds its Scheme Shares in a CHESS Holding agrees to the conversion of those Scheme Shares to an Issuer Sponsored Holding and irrevocably authorises SLA to do anything necessary, expedient or incidental (whether required by the ASX Settlement Rules or otherwise) to effect or facilitate such conversion; and
 - (v) acknowledges that this Scheme binds SLA and all Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting),

without the need for any further act by the Scheme Shareholder.

- (b) Each Scheme Shareholder is taken to have warranted to SLA and API on the Implementation Date, and appointed and authorised SLA as its attorney and agent to warrant to API, that:
 - (i) all of their Scheme Shares (including any rights and entitlements attaching to their Scheme Shares) which are transferred under this Scheme will, at the time of transfer of them to API, be free from all:
 - (A) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (B) restrictions on transfer of any kind;

- (ii) they have full power and capacity to transfer their Scheme Shares to API under the Scheme together with any rights and entitlements attaching to those Scheme Shares;
- (iii) all of their Scheme Shares which are transferred to API under this Scheme will, on the date on which they are transferred to API, be fully paid; and
- (iv) they have no existing right to be issued any other Scheme Shares, any other form of SLA Shares, options exercisable into SLA Shares, SLA convertible notes or any other SLA securities,

and SLA undertakes that it will provide such warranty to API as agent and attorney of each Scheme Shareholder.

8.3 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme will, at the time of transfer of them to API, vest in API free from all:
 - (i) mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and
 - (ii) restrictions on transfer of any kind.
- (b) On the payment of the Scheme Consideration in the manner contemplated by clauses 5.1, 5.2(a) 5.2(b), 5.2(c) and 5.2(g), API will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by SLA of API in the SLA Register as the holder of the Scheme Shares. API's entitlement to be registered in the SLA Register as the holder of the Scheme Shares arises on the Implementation Date in accordance with clause 4.2.

8.4 Appointment of API as sole proxy

On the payment of the Scheme Consideration in the manner contemplated by clauses 5.1, 5.2(a) 5.2(b), 5.2(c) and 5.2(g), and until SLA registers API as the holder of all Scheme Shares in the SLA Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed API as attorney and agent (and directs API in each such capacity) to appoint any director, officer, secretary or agent nominated by API from time to time as its sole proxy and, where applicable or appropriate, corporate representative to attend SLA shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any SLA shareholders' resolution whether in person, by proxy or by corporate representative;
- (b) must not attend or vote at any SLA shareholders' meetings, exercise the votes attaching to Scheme Shares registered in their names or sign any SLA shareholders' resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as API reasonably directs; and

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- (d) acknowledges and agrees that in exercising the powers conferred by clause 8.4(a), API and any director, officer, secretary or agent nominated by API under that clause may act in the best interests of API as the intended registered holder of the Scheme Shares.

8.5 Authority given to SLA

On and from the Effective Date, each Scheme Shareholder, without the need for any further act by the Scheme Shareholder, irrevocably appoints SLA and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purposes of:

- (a) enforcing the Deed Poll against API; and
- (b) executing any document, or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including executing the Scheme Transfer,

and SLA accepts such appointment. SLA, as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers or secretaries (jointly, severally or jointly and severally).

8.6 Binding effect of this Scheme

This Scheme binds SLA and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting) and, to the extent of any inconsistency, overrides SLA's constituent documents.

9 General

9.1 Stamp duty

- (a) API will:
 - (i) pay all stamp duty (if any) and any related fines, interest and penalties payable in respect of the Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under or in connection with the Scheme and the Deed Poll; and
 - (ii) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a)(i).

9.2 Consent

Each Scheme Shareholder consents to SLA doing all things necessary or incidental to give full effect to the implementation of this Scheme and the transactions contemplated by it, whether on behalf of the Scheme Shareholders, SLA or otherwise.

9.3 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to SLA, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if

any) on which it is actually received at SLA's registered office or at the office of the Registry.

- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a SLA Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.4 Governing law and jurisdiction

- (a) This Scheme and any dispute arising out of or in connection with the subject matters of this document is governed by the laws in force in NSW, Australia.
- (b) Each party irrevocably:
 - (i) submits to the non-exclusive jurisdiction of the courts of NSW, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this Scheme; and
 - (ii) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 9.4(b)(i).

9.5 Further action

SLA must do all things and execute all documents necessary or incidental to give full effect to this Scheme and the transactions contemplated by it.

9.6 No liability when acting in good faith

Each Scheme Shareholder agrees that none of SLA's or API's respective directors, officers or employees, will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll when the relevant person has acted in good faith.

Schedule 1 Dictionary

1 Dictionary

Accrued Interest has the meaning given in clause 5.2(a).

Aggregate Scheme Consideration means the Scheme Consideration multiplied by the total number of Scheme Shares.

API means Australian Pharmaceutical Industries Pty Ltd (ACN 000 004 320).

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, where the context requires, the financial market operated by it.

ASX Settlement Rules means operating rules of the settlement facility provided by ASX Settlement Pty Ltd (ACN 008 504 532).

Business Day has the meaning given in the official listing rules of ASX.

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited and ASX Clear Pty Limited.

CHESS Holding has the meaning given in the ASX Settlement Rules.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia (NSW Registry) or such other court of competent jurisdiction under the Corporations Act agreed in writing by SLA and API.

Deed Poll means the deed poll dated [] 2023 under which, among other things, API covenants in favour of Scheme Shareholders to pay the Scheme Consideration in accordance with the Scheme.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective.

End Date means 1 April 2024, or such later date as SLA and API agree in writing.

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel).

Implementation Date means the fifth Business Day after the Scheme Record Date or such other day as SLA and API agree in writing.

Implementation Deed means the scheme implementation deed dated 26 June 2023 between SLA and API relating to, among other things, the implementation of the Scheme.

Issuer Sponsored Holding has the meaning given in the ASX Settlement Rules.

Notice has the meaning given in the Implementation Deed.

Registered Address means, in relation to a Scheme Shareholder, the address shown in the SLA Register as at the Scheme Record Date.

Registry means Computershare Investor Services Pty Limited.

Scheme means this scheme of arrangement between SLA and Scheme Shareholders under which all of the Scheme Shares will be transferred to API under Part 5.1 of the Corporations Act, in consideration for the Scheme Consideration, subject to any alterations or conditions that are:

- (a) agreed to in writing by SLA and API, and approved by the Court; or
- (b) made or required by the Court under section 411(6) of the Corporations Act and agreed to in writing by SLA and API.

Scheme Consideration means an amount of \$3.35 for each Scheme Share, subject to, and as adjusted in accordance with, clause 5(h) of the Implementation Deed (if applicable).

Scheme Meeting means the meeting of SLA Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider this Scheme, and includes any adjournment thereof.

Scheme Record Date means 7:00pm on the fifth Business Day after the Effective Date, or such other time and date as SLA and API agree in writing and ASX may allow.

Scheme Share means a SLA Share held by a Scheme Shareholder as at the Scheme Record Date.

Scheme Shareholder means a SLA Shareholder as at the Scheme Record Date.

Scheme Transfer means one or more proper instruments of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act in favour of API as transferee, which may be or include a master transfer of all or part of the Scheme Shares.

Second Court Date means the first day on which an application made to the Court for orders under section 411(4)(b) of the Corporations Act approving this Scheme is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Separate Account has the meaning given in clause 5.2(c).

SLA means SILK Laser Australia Limited (ACN 645 400 399).

SLA Register means the register of SLA Shareholders maintained in accordance with the Corporations Act.

SLA Share means a fully paid ordinary share in the capital of SLA.

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SLA Shareholder means a holder of one or more SLA Shares, as shown in the SLA Register.

Special Dividend has the meaning given in the Implementation Deed.

Trust Account means an Australian dollar denominated trust account which is operated by or on behalf of SLA as trustee for the Scheme Shareholders.

Withholding Amount has the meaning given in clause 5.2(c).

2 Interpretation

In this Scheme, the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this Scheme.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.
- (e) The words 'include', 'including', 'such as', 'for example' and similar expressions are not words of limitation and do not limit what else might be included.
- (f) A reference to:
 - (i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);
 - (ii) a thing (including a chose in action or other right) includes a part of that thing;
 - (iii) a party includes its successors and permitted assigns;
 - (iv) a document includes all amendments or supplements to that document;
 - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this Scheme (as applicable);
 - (vi) this Scheme includes all schedules to it;
 - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;
 - (viii) an agreement (other than this Scheme) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);
 - (ix) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends; and

- (x) a monetary amount is in Australian dollars.
- (g) An agreement on the part of two or more persons binds them jointly and severally.
- (h) When the day on which something must be done is not a Business Day, that thing must be done on the following Business Day.
- (i) In determining the time of day where relevant to this Scheme, the time of day is:
 - (i) for the purposes of giving or receiving Notice, the time of day where the party receiving Notice is located; or
 - (ii) for any other purpose under this Scheme, the time of day in Sydney, New South Wales.
- (j) No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this Scheme or any part of it.

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Execution page

Executed as a deed.

Signed sealed and delivered by **Australian
Pharmaceutical Industries Pty Ltd** in
accordance with section 127 of the *Corporations Act
2001 (Cth)* by:



Signature of director

Signature of ~~director~~/secretary

Emily Amos

Kimalee Hunter

Name of director (print)

Name of ~~director~~/secretary (print)

Annexure D

Notice of Scheme Meeting

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Annexure D Notice of Scheme Meeting

SILK Laser Australia Limited
ACN 645 400 399

NOTICE OF SCHEME MEETING

Notice is hereby given that, by an order of the Court made on Wednesday, 4 October 2023 pursuant to section 411(1) of the Corporations Act, a meeting of SILK Shareholders will be held at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000 on Friday, 10 November 2023 at 10.30am Sydney time (10.00am Adelaide time) (this is the **Scheme Meeting**).

Purpose of the Scheme Meeting

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with any modifications, alterations or conditions required by the Court to which SILK Laser Australia Limited (**SILK**) and Australian Pharmaceutical Industries Pty Ltd (**API**) agree, or any modifications, alterations or conditions agreed in writing by SILK and API and approved by the Court) proposed to be made between SILK and SILK Shareholders (**Scheme**) as contained in and more particularly described in the Scheme Booklet of which this Notice of Scheme Meeting forms part.

A copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet, of which this notice forms part.

Capitalised terms used in this Notice of Scheme Meeting but not defined in it have the same meaning as set out in the Glossary in Section 10 of the Scheme Booklet.

Scheme Resolution

The meeting will be asked to consider and, if thought fit, pass (with or without amendment) the following resolution:

*'That, pursuant to and in accordance with the provisions of section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between SILK Laser Australia Limited (**SILK**) and the holders of its ordinary shares, as contained in and more particularly described in the Scheme Booklet of which the notice convening this meeting forms part, is agreed to (with any modifications, alterations or conditions as required by the Federal Court of Australia to which SILK and Australian Pharmaceutical Industries Pty Ltd (**API**) agree, or any modifications, alterations or conditions agreed in writing by SILK and API and approved by the Federal Court of Australia), and the SILK Board is authorised to implement the Scheme with any such modifications, alterations or conditions.'*

Chair

The Court has directed that Mr Boris Bosnich is to act as Chair of the Scheme Meeting (and that, if Mr Boris Bosnich is unable or unwilling to attend, Mr Andrew Cosh is to act as Chair of the Scheme Meeting).

Participating in the Scheme Meeting

Shareholders and their authorised proxies, attorneys and corporate representatives who wish to attend and participate in the Scheme Meeting may do so by attending in person at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000.

Further details on how to participate in the Scheme Meeting are set out in the explanatory notes that accompany and form part of this Notice of Meeting on the SILK website at <https://silk laser.com.au/investors/>.

Shareholders who are unable to, or do not wish to, attend the Scheme Meeting are encouraged to submit a directed proxy vote as early as possible and in any event by 10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023 by completing and submitting a proxy form in accordance with the instructions on that form.

By Order of the Court and the SILK Board



Richard Willson
Company Secretary

4 October 2023

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EXPLANATORY NOTES

1. General

This notice of scheme meeting relates to the Scheme and should be read in conjunction with SILK's scheme booklet dated on or about the date of this notice of scheme meeting (**Scheme Booklet**) of which this notice forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the Scheme Resolution.

A copy of the Scheme is set out in Annexure B of the Scheme Booklet.

Capitalised terms used but not defined in this notice have the defined meanings set out in Section 10 of the Scheme Booklet, unless the context otherwise requires.

2. Shareholder approval

For the proposed Scheme to be binding in accordance with section 411 of the Corporations Act, the Scheme Resolution must be agreed to by:

- unless the Court orders otherwise, a majority in number of SILK Shareholders present and voting (either in person or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative) at the Scheme Meeting; and
- at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by SILK Shareholders present and voting (either in person or by proxy, attorney or, in the case of corporate SILK Shareholders, body corporate representative).

3. Court approval

Under paragraph 411(4)(b) of the Corporations Act, the Scheme (with any modifications, alterations or conditions required by the Court to which SILK and API agree, or any modifications, alterations or conditions agreed in writing by SILK and API and approved by the Court) is subject to the approval of the Court. If the Scheme Resolution is passed by the Requisite Majorities and the other Conditions (other than approval by the Court) are satisfied or waived (as applicable) by the time required under the Scheme, SILK intends to apply to the Court for the necessary orders to give effect to the Scheme.

In order for the Scheme to become Effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

4. Entitlement to vote

It has been determined that the time for determining eligibility to vote at the Scheme Meeting is 7.00pm Sydney time (6.30pm Adelaide time) on Wednesday, 8 November 2023. Only those SILK Shareholders entered on the Register at that time will be entitled to attend and vote at the Scheme Meeting, either in person, by proxy or attorney, or in the case of a corporate SILK Shareholder, by a body corporate representative. The remaining comments in these explanatory notes are addressed to SILK Shareholders entitled to attend and vote at the Scheme Meeting.

5. Attendance and participation

Voting entitlement

The SILK Board has determined that, for the purposes of the Scheme Meeting (including voting at the Scheme Meeting), SILK Shareholders are those persons who are the registered holders of SILK Shares at 7.00pm Sydney time (6.30pm Adelaide time) on Wednesday, 8 November 2023.

Holders of SILK Shares may vote on the Scheme Resolution.

Attending the meeting and voting

SILK Shareholders who wish to attend and participate in the Scheme Meeting may do so by attending in person at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000.

SILK may be required to make changes to the arrangements for the Scheme Meeting at short notice. SILK will keep shareholders informed if this becomes necessary and details will be notified by an ASX release.

Asking questions

SILK Shareholders will have a reasonable opportunity to ask questions or make comments at the Scheme Meeting by attending in person at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000.

To ensure that as many SILK Shareholders as possible have the opportunity to participate, it is requested that all SILK Shareholder questions should be stated clearly and should be relevant to the business of the Scheme Meeting.

SILK Shareholders who prefer to register questions in advance of the Scheme Meeting are invited to do so by contacting the Company by email to richard.willson@silkklaser.com.au or by mail addressed to Level 1, 137 The Parade, Norwood, South Australia 5067.

The Chair of the Scheme Meeting will endeavour to address as many of the more frequently raised and relevant questions as possible during the course of the Scheme Meeting.

Questions submitted in advance of the Scheme Meeting must be received by SILK no later than 10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023 (48 hours before the commencement of the Scheme Meeting).

6. How to vote

Voting will be conducted by poll.

If you are a SILK Shareholder entitled to vote at the Scheme Meeting, you may vote by:

- attending and voting at the Scheme Meeting in person;
- appointing one or two proxies to attend the Scheme Meeting and vote on your behalf, by returning a proxy form by post, email or fax to the Share Registry, or by lodging your proxy form online at www.investorvote.com.au, in accordance with the instructions on that form;
- appointing an attorney to attend the Scheme Meeting and vote on your behalf, using a power of attorney; or
- in the case of a body corporate, appointing a body corporate representative to attend the Scheme Meeting and vote on your behalf, using a certificate of appointment of body corporate representative.

7. Voting

7.1 Voting in person

To vote in person, you must attend the Scheme Meeting in person at Kain Lawyers, Level 5, 121 King William St, Adelaide, South Australia 5000.

All persons attending the Scheme Meeting must register their attendance by disclosing their name at the point of entry to the Scheme Meeting.

7.2 Voting by proxy

A SILK Shareholder entitled to vote at the Scheme Meeting has a right to appoint a proxy, who need not be a SILK Shareholder, to attend and vote at the Scheme Meeting as their proxy. A SILK Shareholder who is entitled to cast two or more votes at the Scheme Meeting may appoint one or two proxies. Each proxy will have the right to vote on the poll and also to speak at the Scheme Meeting.

To be effective for the Scheme Meeting, the proxy form (and any authority under which it is signed or a certified copy) must be received by SILK no later than 10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023 (48 hours before the commencement of the Scheme Meeting).

Completed proxy forms can be sent:

- by mail to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001;
- by facsimile to Computershare Investor Services Pty Limited on:
 - (from within Australia) 1800 783 447; and
 - (from outside Australia) +61 3 9473 2555;
- online, by visiting www.investorvote.com.au and following the instructions on the proxy form; or
- for Intermediary Online subscribers only (custodians), please visit www.intermediaryonline.com to submit your voting intentions.

Alternatively, shareholders may complete and lodge a proxy form online by following the instructions on the proxy form, so that the instructions are received no later than 48 hours before the commencement of the Scheme Meeting.

Proxy forms received after this time will be invalid.

If a proxy form is completed under power of attorney or other authority, the power of attorney or other authority, or a certified copy of the power of attorney or other authority, must accompany the completed proxy form unless the power of attorney or other authority has previously been noted by the Share Registry.

A vote given in accordance with the terms of a proxy appointment is valid despite the revocation of that appointment, unless:

- notice in writing of the revocation has been received by the Share Registry before the start of the Scheme Meeting (or, if the meeting is adjourned or postponed, before the resumption of the meeting in relation to the resumed part of the meeting) in any of the ways described above; or
- notice of revocation is given by the SILK Shareholder on registering their attendance at the Scheme Meeting at the registration desk located at the Scheme Meeting on Friday, 10 November 2023.

If you wish to appoint a second proxy, a second proxy form should be used and you should clearly indicate on the second proxy form that it is a second proxy and not a revocation of your first proxy. Both proxy forms should be returned together in the same envelope. You can obtain a second proxy form from the Share Registry.

If you appoint two proxies, each proxy should be appointed to represent a specified proportion of your voting rights. If you do not specify the proportions in the proxy forms, each proxy may exercise half of your votes with any fractions of votes disregarded.

If you hold SILK Shares jointly with one or more other persons, in order for your proxy appointment to be valid, either SILK Shareholder may sign the proxy form.

You should consider how you wish your proxy to vote. That is, whether you want your proxy to vote 'for' or 'against', or abstain from voting on, the Scheme Resolution, or whether to leave the decision to the proxy after he or she has considered the matters discussed at the Scheme Meeting.

If you do not direct your proxy how to vote on an item of business, the proxy may vote, or abstain from voting, as he or she thinks fit. If you instruct your proxy to abstain from voting on an item of business, he or she is directed not to vote on your behalf, and the shares the subject of the proxy appointment will not be counted in computing the required majority.

If you return your proxy form:

- without identifying a proxy on it, you will be taken to have appointed the Chair of the Scheme Meeting as your proxy to vote on your behalf; or
- with a proxy identified on it but your proxy does not attend the Scheme Meeting, the Chair of the Scheme Meeting will act in place of your nominated proxy and vote in accordance with any directions on your proxy form.

The Chair of the Scheme Meeting intends to vote all valid undirected proxies which nominate the Chair in favour of the Scheme Resolution, in the absence of a Superior Proposal and the Independent Expert continuing to conclude that the Scheme is in the best interests of SILK Shareholders.

Your appointment of a proxy does not preclude you from attending in person, revoking the proxy and voting at the Scheme Meeting.

Replacement proxy forms can be obtained from the Share Registry.

7.3 Voting by attorney

You may appoint an attorney to attend and vote at the Scheme Meeting on your behalf. Your attorney need not be another SILK Shareholder. Each attorney will have the right to vote on the poll and also to speak at the Scheme Meeting.

The power of attorney appointing your attorney to attend and vote at the Scheme Meeting must be duly executed by you and specify your name, the company (that is, SILK), and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

The power of attorney, or a certified copy of the power of attorney, should be received by SILK's Share Registry by 10.30am Sydney time (10.00am Adelaide time) on Wednesday, 8 November 2023 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the ways specified for proxy forms in section 7.2 above. The power of attorney or a certified copy of the power of attorney cannot be lodged online or by mobile device.

Your appointment of an attorney does not preclude you from attending in person and voting at the Scheme Meeting.

7.4 Voting by corporate representative

A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the Scheme Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act.

SILK Shareholders can download the "Appointment of Corporate Representative" form from the Share Registry's website by accessing www.investorcentre.com/au and selecting "Printable Forms" under the "Help" tab.

The certificate must be received by the SILK Share Registry prior to the Scheme Meeting unless it has previously been given to SILK. The certificate and any power of attorney under which it is signed (or a certified copy of that power of attorney) must be submitted in any of the ways specified for proxy forms in section 7.2 above. The certificate and any powers of attorney cannot be lodged online or by mobile device.

8. Jointly held securities

If you hold SILK Shares jointly with one or more persons, only one of you may vote. If more than one of you attempts to vote in person at the Scheme Meeting, only the vote of the holder whose name appears first on the Register will be counted.

See also the comments in section 7.2 above regarding the appointment of a proxy by persons who jointly hold SILK Shares.

9. Advertisement

Where this notice of Scheme Meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the Scheme Meeting from the ASX website (www.asx.com.au) or by contacting the Company Secretary of SILK or the Share Registry.

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Corporate Directory

SILK Laser Australia Limited

ACN 645 400 399
1/137 The Parade
Norwood SA 5067

ASX code: SLA
<https://silklaser.com.au/investors/>

Directors

Mr Boris Bosnich
Mr Martin Perelman
Ms Jacinta Caithness (formerly Jacinta Lovel)
Ms Sinead Ryan
Mr Andrew Cosh

Company Secretary

Mr Richard Willson

SILK Shareholder Information Line

1300 429 201 (within Australia)
+61 2 7208 4523 (outside Australia)

The SILK Shareholder Information Line is open on Business Days between 8.30am and 5.00pm (Sydney time) Monday to Friday, excluding public holidays.

Financial adviser

Highbury Partnership

Chifley Plaza, 12/2 Chifley Square
Sydney NSW 2000

Co-adviser

Wilsons Corporate Finance Limited

Level 32, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Legal adviser

Kain Lawyers

Level 5, 121 King William Street
Adelaide SA 5000

Tax adviser

Deloitte Tax Services Pty Ltd

11 Waymouth Street
Adelaide SA 5000

Independent Expert

Lonergan Edwards & Associates Limited

AFS Licence Number 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000

Share Registry

Computershare Investor Services Pty Limited

GPO Box 242
Melbourne VIC 3001

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SILKLASER.COM.AU

SILK

LASER CLINICS

ACN 645 400 399

SLA

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Need assistance?



Phone:

1300 429 201 (within Australia)
+61 2 7208 4523 (outside Australia)



Online:

www.investorcentre.com/contact



YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by SILK by no later than **10:30am Sydney time (10:00am Adelaide time) Wednesday, 8 November 2023.**

Proxy Form

How to Vote on the Item of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite the item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative

If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com/au and select "Printable Forms" under the "Help" tab.

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



Control Number: 999999

SRN/HIN: I999999999

PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of SILK Laser Australia Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Scheme Meeting of SILK Laser Australia Limited to be held at Kain Lawyers, Level 5, 121 King William Street, Adelaide, South Australia 5000 on Friday, 10 November 2023 at 10:30am Sydney time (10:00am Adelaide time) and at any adjournment or postponement of that meeting.

Step 2 Item of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

For Against Abstain

'That, pursuant to and in accordance with the provisions of section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between SILK Laser Australia Limited (SILK) and the holders of its ordinary shares, as contained in and more particularly described in the Scheme Booklet of which the notice convening this meeting forms part, is agreed to (with any modifications, alterations or conditions as required by the Federal Court of Australia to which SILK and Australian Pharmaceutical Industries Pty Ltd (API) agree, or any modifications, alterations or conditions agreed in writing by SILK and API and approved by the Federal Court of Australia), and the SILK Board is authorised to implement the Scheme with any such modifications, alterations or conditions.'

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The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s) *This section must be completed.*

<input type="text"/>	<input type="text"/>	<input type="text"/>	/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

<input type="text"/>	<input type="text"/>
Mobile Number	Email Address

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

